As of 4 p.m. ET **DJIA** 10402.35 ▲ 0.09% **FTSE 100** 5358.17 ▲ 0.62% **Nikkei 225** 10123.58 ▼ 2.05% **Shanghai Comp.** 3018.13 Closed **Hang Seng** 19894.02 ▼ 2.59% **Sensex** 16191.63 ▼ 0.83% **S&P/ASX 200** 4635.06 ▼ 0.43%

Hong Kong looks to the yuan for an early edge on Shanghai
THE VIEW FROM HONG KONG 21

An American is imprisoned in Burma's gulag
EDITORIAL & OPINION 13

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Toyota braces for close U.S. scrutiny

By Neil King Jr.

WASHINGTON—**Toyota Motor** Corp.'s five-decade march to the top of the global auto industry was driven by success in the U.S. market. What happens to that legacy could depend on how the company fares during congressional hearings that start this week.

Toyota acknowledges the looming tension. "I don't know whether it's 'The Scream,' or that Japanese artist who does the wave that's as big as a house, but that's what it feels like right now," said Josephine Cooper, the auto maker's main Washington lobbyist.

U.S. lawmakers who will be grilling Toyota officials say they plan to dig into why the world's largest car maker didn't respond sooner to its safety problems, and whether pushback from the company's corporate chiefs in Japan contributed to any delays.

Congress is also seeking any evidence that Toyota, or U.S. regulators, may have ignored early signs of trouble with the car maker's acceleration and braking systems.

The main event promises to be company President Akio Toyoda's scheduled appearance before the House Oversight and Government Reform Committee on Wednesday. Mr. Toyoda, a member of the company's founding family, agreed to testify only after days of waffling and mounting pressure in Japan and Washington.

Toyota officials and dealers want to add another issue to the agenda: What happens to thousands of jobs if Toyota's sales suffer long-lasting damage? At least 100 Toyota dealers plan to fly into Washington on Monday to meet lawmakers, including members of the committees that will question Toyota officials and U.S. regulators.

"Everyone is coming armed with their economic-impact data: number of employees, taxes paid, health care covered, investments made, all of that," said Tammy Darvish, a Toyota

Please turn to page 24

■ Probe of Toyota to touch on George W. Bush era..... 24

Speedskater Lee Jung-su of South Korea sets Olympic record

Reuters

South Korea's Lee Jung-su, left, holds the lead during the last turn in the 1,000-meter short track skating event at the Winter Olympics on Saturday night in Vancouver, where he won the gold medal. His teammate Lee Ho-suk, center, earned the silver, while Apolo Anton Ohno of the U.S., right, won the bronze. Lee Jung-su's time of 1:23.747 set a new Olympic record. **WSJ.com/Olympics**

The People's Republic of Hacking

By James T. Areddy

WUHAN, China—Some of today's biggest cybersecurity worries trace their roots to this central Chinese city, where a hacker with a junior high school education slapped cartoon pandas onto millions of computers to hide a destructive spy program.

The Panda Burns Incense computer worm, created by 27-year-old Li Jun, wreaked havoc for months in China in 2006 and 2007, eventually landing Mr. Li in jail. Jumping one computer to another by tricking users into opening what appeared to be a friendly email message, the Panda funneled passwords, financial information and online cash balances from game Web sites to Mr. Li's cohorts—leaving a panda as its calling card.

Imaginechina/ZUMA Press

Panda virus creator Li Jun

When Google Inc. last month alleged that it and more than 20 other companies were breached in a cyberattack it traced to China, the attack, dubbed Aurora, appeared orders of magnitude more complex than the Panda attack. Unlike the Panda attack, which left a calling card and spread quickly and randomly, the perpetrators of Aurora targeted specific employees within the companies they attacked and went to great lengths to cover their tracks.

There is no evidence thus far that the Google hack has any connection to the Panda's pandemonium. What is clear is that Mr. Li learned his craft and launched his attack within a hacker network in China that remains an active and growing threat to global computer users.

The identity, motivation and methods of Chinese hackers are rarely traceable. But based on interviews with security experts, forensic reports from independent tech firms, and the hackers themselves, the Panda case offers a rare window into how the underground world of Chinese hacking operates.

Mr. Li's Panda attack became known as "the first case of organized cybercrime in China, using a computer virus," according to U.S. technology security firm Symantec Corp. Once a computer was infected, the desktop icon of every executable file, such as Microsoft Corp.'s Word, would change into a picture of a panda. Clicking the panda would prompt the computer to immediately download

Please turn to page 14

■ Were computers at Chinese schools used in attacks? 15

PAGE TWO

What's News—

* * *

Business & Finance

■ **The long-planned merger** of Japanese banks Shinsei and Aozora is faltering as the urgency of the financial crisis wanes. A collapse would leave both banks with big challenges as they labor to build sturdy businesses in a competitive market. **21**

■ **Indian borrowing to build** infrastructure has rebounded strongly and will continue to expand, the chief executive of the nation's largest infrastructure-financing company said. **3**

■ **Some investors have reacted** to fiscal problems in Greece and other European countries by buying up what appear to be risky assets. The biggest beneficiaries of the shift have been Central and Eastern European markets. **22**

■ **Robert Hanson is poised** to start a China-focused fund, in a dramatic return to deal making for the son of the late U.K. industrialist Lord Hanson. **26**

■ **The IPO market** has gotten off to a bad start in 2010, but bankers say they expect a pickup in activity in the months ahead. **27**

■ **Hong Kong police** are investigating the circumstances around an attempt last year by Richard Li to buy out PCCW. **23**

■ **China attracted** $8.13 billion in foreign direct investment in January, up from a year earlier, but down from December. **4**

■ **Singapore's economy** contracted more slowly in the fourth quarter than the government initially estimated, prompting it to raise this year's growth forecast. **5**

■ **China's banking regulator** put in place rules aimed at ensuring that loans to individuals and businesses are used properly. **26**

■ **Oil-field firms are seeking** partners as a possible merger between Schlumberger and Smith shows size is still important. **25**

Associated Press

An Afghan policeman stands guard as flames rise behind him during a drug-burning ceremony in Herat, west of Kabul, Afghanistan, on Sunday. Approximately 1,850 kilograms of drugs were set on fire. The country is the world's largest producer of opium, which is considered to be a major funding source for the Taliban.

■ **Fed officials boosted efforts** to assure markets that its increase in the discount rate wasn't a signal that the central bank was trying to tighten credit more broadly. **7**

■ **Nestlé's full-year profit** fell 42%, but the company said underlying sales growth was strong, boosted by ad spending and growth in emerging markets. **25**

■ **Fortescue reported** a 94% drop in fiscal first-half net income and pushed back the date for a key expansion of its Pilbara iron-ore mining operation. **23**

■ **Bridgestone's profit fell 90%** amid a slump in tire demand and the effects of a strong yen, but the firm expects to recover in 2010. **23**

* * *

World-Wide

■ **Coalition forces said** it could take at least a month to clean out and secure hotly contested parts of Afghanistan's Helmand province, indicating the slow if steady pace of the progress of the offensive against the Taliban. **8**

■ **North Korea's latest census** shows the country's population is growing, but also getting older and less healthy, and that its army has fewer than 700,000 people. **5**

■ **Philippine marines killed** an al Qaeda-linked militant commander and five other extremists in an assault on a rebel encampment in the south, the military said.

■ **Rescue workers dug** to free cars and homes buried under mud in Madeira, after flash floods and mudslides killed at least 40 people on the Portuguese island.

■ **The Dutch coalition** government collapsed over whether to extend the country's military mission in Afghanistan, leaving uncertain the future of its 1,600 soldiers fighting there.

■ **Japan expressed** disappointment with Australia's threat to take the country to court over its Antarctic whale hunts.

■ **Egypt is building** an underground barrier between it and the Gaza Strip, in an effort to close over 1,000 smuggling tunnels. **9**

ONLINE TODAY

Most read in Asia

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Digits

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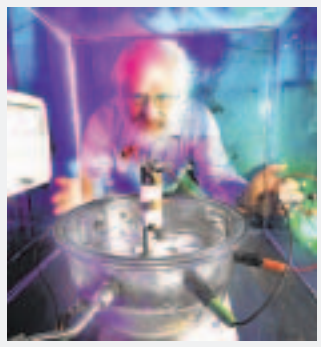
Facebook plans to let consumers and advertisers buy ads and virtual items via PayPal, a move aimed at boosting its international business.

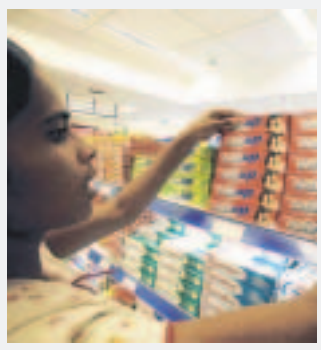
Inside

The Outlook: The new argument for a higher inflation goal. **6**



Energy: The Journal Report on new energy technologies. **16-18**

On Other Fronts: For Greenspan portraits, beauty is fleeting. **20**



Heard on the Street: Hindustan Unilever's soapy grip on India. **36**

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WORLD NEWS

IDFC chief says power is 'the next telecom'

By Eric Bellman

MUMBAI—Indian borrowing to build infrastructure has rebounded and will continue to expand as the government and companies build bridges, roads and power plants at an unprecedented pace, confident that the worst of the global debt crisis has passed, said the chief executive of India's largest infrastructure-financing company.

In an interview, Rajiv Lall, chief executive of **Infrastructure Development Finance Co.**, said much of the surge in business is coming from the power sector.

"The pipeline for privately sponsored power-generation projects is absolutely humongous," he said. "We are generally conservative as an organization, [but] I think we have now come to the conclusion that power generation is going to be the next telecom of the Indian infrastructure story."

India has experienced a revolution in its telecommunications infrastructure over the last five years as billions of dollars of investment in cellular networks has brought phone service to hundreds of millions of Indians who never had phones.

India's return to a rapid buildup of infrastructure is crucial, as blackouts and clogged roads choke growth.

The energy industry in India has at last reached a tipping point, said Mr. Lall, with better government regulations, smart financing and private companies that can build the megaprojects lined up to bring a wave of new generation capacity to the subcontinent. He estimates $20 billion a year will be spent on new power plants over the next four years, adding at least 30% to India's generating capacity.

From almost no net-profit growth in the fiscal year ended March 31, 2009, IDFC expects about 20% growth this year and 30% next year, he said.

The country's return to a rapid buildup of infrastructure is crucial. The growth India needs to lift more of its citizens out of poverty is getting choked by regular blackouts and clogged roads, as well as lack of schools and hospitals for its population of more than one billion.

When the global debt crisis forced IDFC to almost freeze new lending in late 2008, IDFC's profit growth decelerated to next to nothing. In the third quarter ended Dec. 31, its net profit soared 46% from a year earlier to 2.7 billion rupees ($58.5 million).

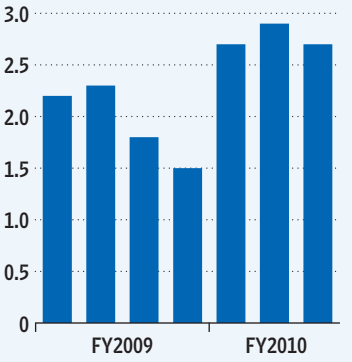
To keep the momentum going, IDFC and its Indian infrastructure peers need the government to become more efficient at executing big projects, Mr. Lall said. One area they need deregulated further: all the rules connected to acquiring land for infrastructure projects.

"How land is aggregated, how it is made available for the purpose of infrastructure development. There's a huge amount of murky, political economy that underlies, underpins the whole process," he said. "Simplification of that—which is a very difficult thing to do, given the political economy of that process—is something that we really, really need to work on."

—Arlene Chang contributed to this article.

Ready to build

Infrastructure Development Finance's net profit, in billions of rupees



Note: Fiscal years end March 31
Source: the company

Bloomberg News

Rajiv Lall, chief executive officer of Infrastructure Development Finance

Malaysia's talent pool of Islamic finance professionals are conversant in both theoretical and practical Shariah application, making it the perfect stepping-stone for anyone who wants to build a career in Islamic finance.

Badlisyah Abdul Ghani
Executive Director / Chief Executive Officer
CIMB Islamic Bank

Finance professionals trained in Malaysia have the upper hand to tap into Islamic finance opportunities around the world.

Jamelah Jamaluddin
Chief Executive Officer
Kuwait Finance House Malaysia

shaping islamic finance together MALAYSIA

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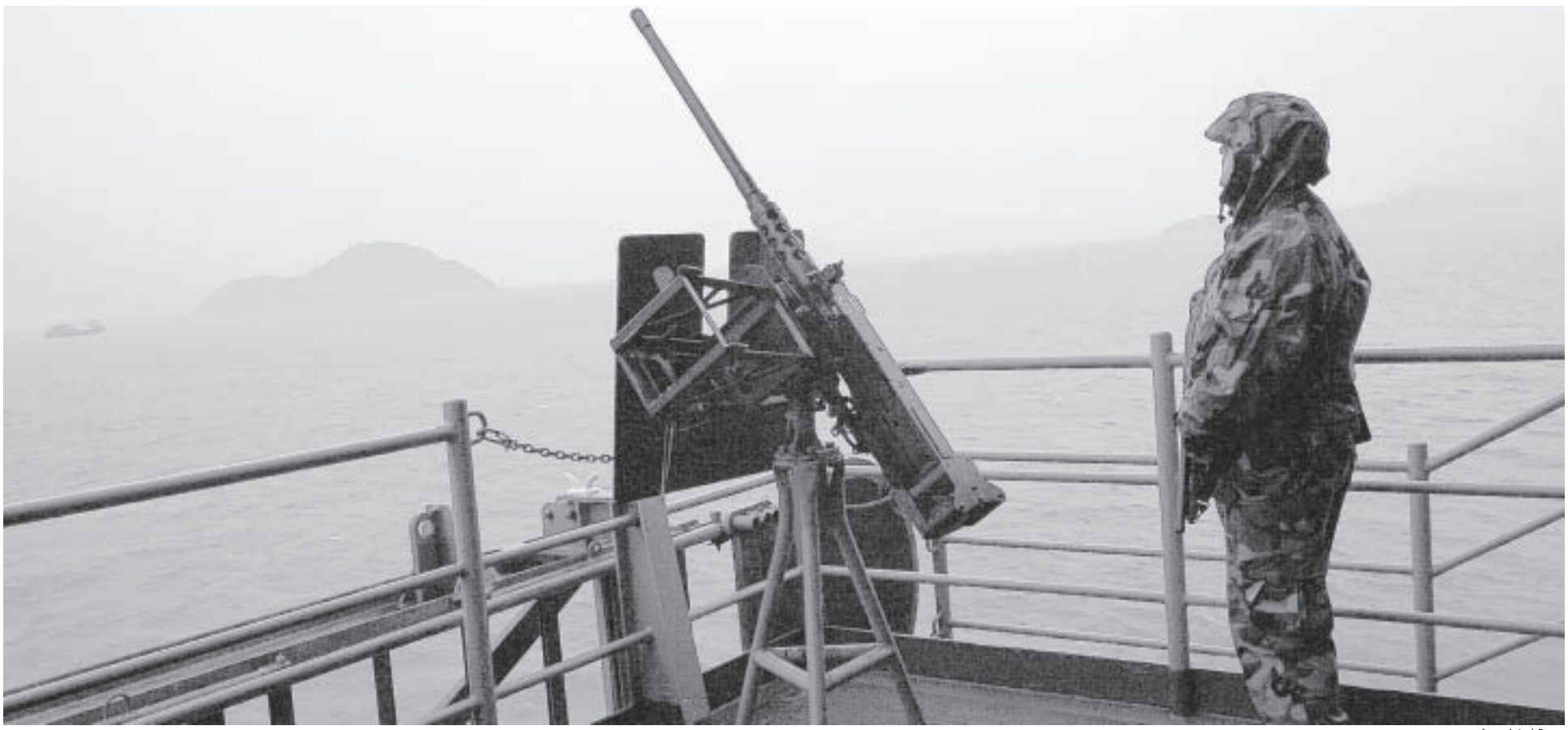


Associated Press

A visit to Hong Kong by the USS Nimitz, on Wednesday, was seen as indicating U.S.-China ties would endure.

U.S. sees little backlash to arms sale

Beijing reaction to Washington deal with Taiwan shows value China places on defense ties, American officials say

By Peter Spiegel

WASHINGTON—China's premium on bilateral military ties with Washington appears to be tempering its reaction to the recent U.S. decision to sell arms to Taiwan, say current and former U.S. officials.

Beijing responded with heated rhetoric to last month's decision by the Obama administration to sell $6.4 billion of arms to the island, which China considers part of its territory. But the U.S. officials say the military fallout from the decision appears more limited than two years ago, when China blocked port visits to Hong Kong by U.S. warships and broke off many defense contacts in response to arms sales.

Just last week, a group of ships led by the USS Nimitz aircraft carrier was allowed into Hong Kong. Meantime, Pentagon officials said standing invitations to visit China extended to both Defense Secretary Robert Gates and Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, haven't been rescinded.

Senior U.S. defense officials cautioned they have yet to receive a formal notification of China's response to the Jan. 29 decision, in which the administration announced it would sell Patriot antimissile systems, Black Hawk helicopters, and mine-hunting ships to Taiwan.

People who have discussed the issue with Chinese officials said there is still debate within the Chinese government over how to respond.

But U.S. defense officials said they believe China is taking a more "calibrated" approach to the decision, arguing that the People's Liberation Army and other Chinese leaders have put increasing value on bilateral military ties.

"The Chinese have to make some type of statement that underscores they view this as a core issue to them," a senior defense official said. "But I do think that over the past year, we saw some institutional learning on the part of the PLA and the senior Chinese political leadership that there is value in maintaining these kinds of contacts and interactions."

In response to announcements of Taiwan arms sales in 2007 and 2008, Beijing took a series of actions that worried and angered American officials, including canceling a long-scheduled port call to Hong Kong by the USS Kitty Hawk aircraft carrier in November 2007.

Chinese officials at the time said the move was a response to U.S. moves to upgrade Taiwan antimissile systems. The same month, two U.S. Navy minesweepers were denied harbor in Hong Kong ahead of a raging storm in the Pacific.

Following the October 2008 decision by the departing Bush administration to sell $6.4 billion in arms to Taiwan, Beijing canceled or postponed 10 separate military exchanges planned by the countries.

Not all military contacts were halted at the time, and another senior defense official said the Hong Kong incidents may not be an accurate indication of Beijing's intentions, as Chinese officials in the past treated Hong Kong differently from the rest of mainland China.

But experts and people who have discussed the issue with both U.S. and Chinese officials said the Hong Kong port call, as well as subtle differences between official statements made in 2008 and last month, are strong indications Beijing would like to move beyond the dispute and quickly resume official contacts.

"They are all in damage-control mode," said Douglas Paal, an East Asia expert at the Carnegie Endowment for International Peace who has discussed the issue with Chinese officials. "What they're trying to do is figure out how long is a decent interval between the arms sale announcement and the Dalai Lama's visit to the White House and when President Hu Jintao can come here."

During President Barack Obama's trip to Beijing in November, Chinese President Hu agreed to include provisions in official statements that emphasized the importance of "sustained and reliable" military exchanges—a further sign, U.S. officials said, of a shifting Chinese view.

Wang Baodong, a spokesman for the Chinese Embassy in Washington, said Beijing's stance hasn't changed. He repeated China's call for the administration to "correct the erroneous decision" approving the sales.

"China is strongly for sound bilateral relations with the U.S., including military-to-military exchanges, but there is a prerequisite," Mr. Wang said.

As part of its objection to the January announcement, China warned it would also punish companies involved in the arms sales, a threat that would most affect U.S. defense firms with large commercial relationships with Beijing, particularly **Boeing** Co. Earlier last week, Air China, Beijing's flagship airline, announced the purchase of 20 planes from European rival **Airbus**. But people familiar with the deal said the acquisition was originally agreed to in 2007.

Current and former U.S. officials said part of the reason for the restrained reaction may be due to the Obama administration's decision to not include weapons that Beijing was most concerned about, including F-16 fighters and funds for diesel-powered submarines.

China foreign direct investment rises

By J.R. Wu
And Yajun Zhang

BEIJING—China attracted $8.13 billion in foreign direct investment in January, which was up from a year earlier, but down from December, according to data issued by the Ministry of Commerce on Saturday.

Actual FDI rose 7.8% in January, year-to-year, for the sixth month in a row, but below the $12.1 billion recorded in December.

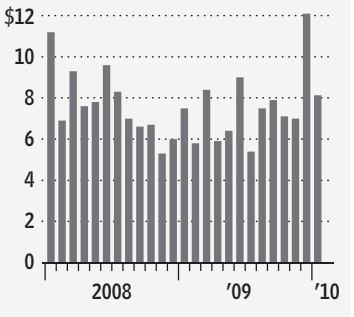
The ministry figures suggest China's FDI is gradually recovering, but at low levels, as the world's third-largest economy rebounds more than a year after the global financial crisis hit.

A low base of comparison has been a factor in the year-to-year growth in China's FDI in recent months after it began falling in October 2008 because of the global financial crisis. But data in the first two months of the year tend to be distorted by the Lunar New Year holiday, which fell in January in 2009, resulting in fewer working days in the month. This year, the weeklong holiday fell in February.

The ministry also said China's outward direct investment, excluding the financial sector, totaled $2.36 billion in January. No comparison figures were given on the ministry's Web site. Investment figures didn't include the financial sector.

China's FDI

Actual foreign-direct investment into China, in billions of U.S. dollars



Source: China's Ministry of Commerce

BOJ maintains outlook

By Tomoyuki Tachikawa

TOKYO—The Bank of Japan left its assessment of the broad domestic economy unchanged again in February, saying, as in the previous three months, it is "picking up."

"Japan's economic conditions are likely to continue improving, although the pace of improvement is likely to remain moderate for the time being," the BOJ said in its monthly economic report for February. The central bank also left its view of the economy's major components unchanged.

But the BOJ had a less optimistic view of consumer spending, saying it is likely to stay around the current level as employment and income conditions remain severe.

Last month, the central bank expected consumption to continue picking up for a while.

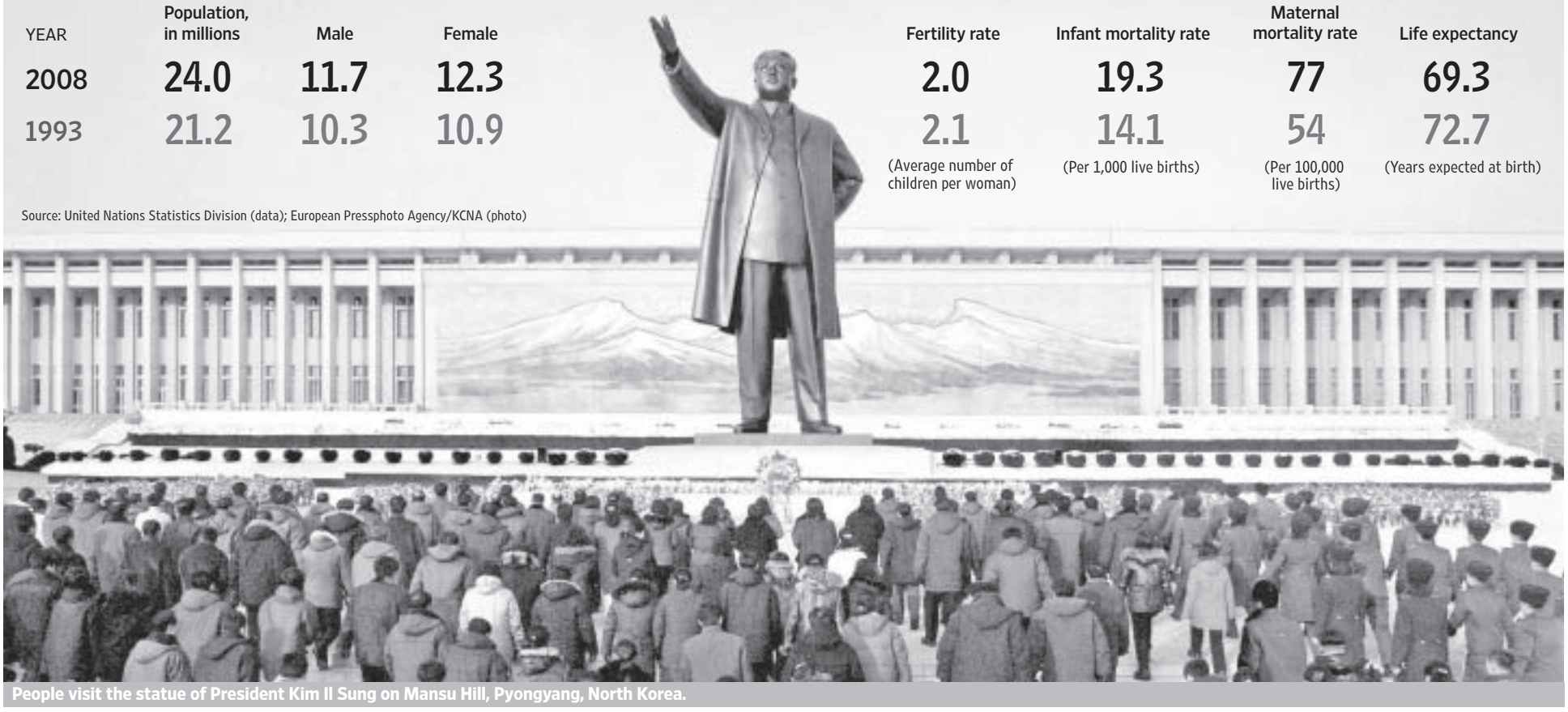
The economic report came after government data showed last Monday that Japan's economy grew at a 4.6% annualized pace in the October-December quarter, in a sign that steady exports to Asia and government stimulus measures are helping to prevent another downturn in the region's largest economy.

The central bank's policy board voted Thursday to maintain its policy interest-rate target at an ultralow 0.1% as it gauges the effectiveness of previous measures.

North Korea's numbers | How the reclusive nation changed in the 15 years between censuses:

YEAR	Population, in millions	Male	Female	Fertility rate	Infant mortality rate	Maternal mortality rate	Life expectancy
2008	24.0	11.7	12.3	2.0	19.3	77	69.3
1993	21.2	10.3	10.9	2.1	14.1	54	72.7
				(Average number of children per woman)	(Per 1,000 live births)	(Per 100,000 live births)	(Years expected at birth)

Source: United Nations Statistics Division (data); European Pressphoto Agency/KCNA (photo)



People visit the statue of President Kim Il Sung on Mansu Hill, Pyongyang, North Korea.

Census sheds light on North Korea

By Evan Ramstad

SEOUL—North Korea is getting bigger, older and less healthy, according to data from the country's latest census, and its fabled million-man army might have fewer than 700,000 people.

The authoritarian government in December released results of the census conducted in 2008, saying its population had climbed to 24 million people from 21.2 million in the previous census in 1993.

More details have been published by the United Nations Population Fund, which helped North Korea conduct the census and sent five teams of observers to monitor it. The data provide outsiders with a rare statistical look at North Korea, where the government for decades has cut off the dissemination of most information about the country.

The census showed North Korea's population grew at an annual average rate of 0.85% for the 15-year period, a time that included a devastating multiyear famine that analysts and foreign aid agencies estimate killed between one million and two million people.

A separate U.N. report published last year found that North Korea's population has grown more slowly since 2005, at an annual rate of 0.4%. The global population has grown 1.2% annually since 2005, the U.N. report said.

North Korea's census showed the population has proportionately fewer children and more middle-aged people than it did in 1993.

It also showed people are less healthy. Babies are more likely to die: The infant mortality rate climbed to 19.3 per 1,000 children in 2008 from 14.1 in 1993, though North Korea's rate is still well below the world average, which a 2009 report by the U.N. agency put at 46 per 1,000 children.

North Koreans are living shorter lives—average life expectancy has fallen to 69.3 years from 72.7 in 1993. As in many places, women live longer than men, with a gap of about seven years, compared with the world average of 4.4 years.

North Korea has 5.9 million households, with an average of 3.9 people in each, according to the census. The typical home is 50 to 75 square meters in size. About 85% of homes have access to running water and about 55% have a flush toilet.

The census provided only a glimpse of the country's economic structure, but even that produced some surprises. The occupation that provides the most employment—farming—has more women, 1.9 million, than men, 1.5 million.

The second-biggest occupation, working for the government or the military, employs 699,000. The census doesn't break that group down further, but the figure suggests North Korea's military isn't as large as had been thought.

The military is often portrayed by outside military analysts and media as a force of one million people, mostly conscripts who are required to serve 10 years.

The third-largest employment sector by number of workers is education, followed by machinery manufacturing, textiles and coal mining. About 40,000 people work in computer, electronic or optical-product manufacturing.

North Korea hasn't shared meaningful information about its economy or its financial system with the outside world since the early 1960s. Outside estimates of its economic performance, most prominently an annual estimate by the South Korean central bank, the Bank of Korea, are filled with assumptions that even their authors say render them almost meaningless.

Word of the availability of the North Korea census data was disseminated last week on North Korea Economy Watch, a Web site run by Curtis Melvin, a Virginia-based graduate student in economics and a specialist in North Korea.

Singapore raises its GDP forecast for 2010

By Sam Holmes
And P.R. Venkat

SINGAPORE—Singapore's economy contracted more slowly in the fourth quarter than the government initially estimated due to stronger manufacturing and construction, prompting the government to raise its forecast for economic growth in 2010.

Despite the brighter outlook, Singapore's central bank gave no indication that it intends to tighten monetary policy at its semi-annual policy meeting in April.

At the same time, the Monetary Authority of Singapore announced new measures to cool down the property market, fearing that a real-estate bubble may be in the works as Singapore leaves the recession behind.

The island state's gross domestic product shrank 2.8% in the three-month period ended Dec. 31 from the third quarter in seasonally adjusted, annualized terms. That was lower than the government's advance estimate, issued in January, of a 6.8% contraction.

The revised contraction was smaller than economists expected: The median forecast of seven economists in a Dow Jones Newswires poll was for a 5.2% drop in GDP.

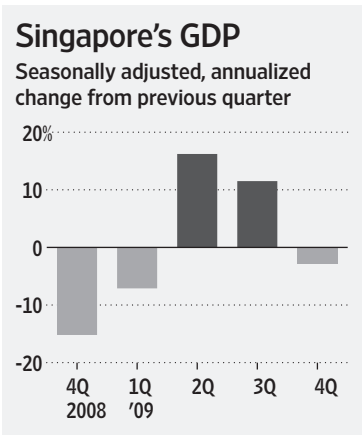
Singapore's export-dependent economy is rebounding from a brief but sharp fall in early 2009 triggered by the global financial crisis in late 2008.

It has benefited from a broader recovery in regional economies as well as a 20.5 billion Singapore dollar (US$14.5 billion) government stimulus package last year.

The Ministry of Trade and Industry said it now expects Singapore's economy to grow in a range of 4.5% to 6.5% in 2010, far above initial forecasts for 3%-5% growth in 2010.

The upbeat projection is the latest indication that the recovery is turning out to be stronger than expected.

"Major economies around the world have emerged from recession. Financial markets have stabilized and trade flows and industrial production have also picked up strongly," the ministry said in a statement.



Source: Ministry of Trade and Industry, Singapore

However, Ministry Permanent Secretary Ravi Menon said there are some concerns about possible weakness in financial markets in the second half of the year, once central banks around the world begin winding down their various extraordinary monetary easing measures.

"On balance, we expect a strong performance by the Singapore economy in the first half, with some pullback in growth in the second half," Mr. Menon said at a briefing. "Rising sovereign debt risks in European economies such as Greece and Spain pose concerns."

The government also nudged down its estimate for inflation this year. It now expects 2% to 3% inflation in 2010, down from an earlier forecast of 2.5% to 3.5%.

The revision is due to changes to the weight of goods and services in the consumer price index and changes to methodology arising from a change in the CPI's base year to 2009.

Standard Chartered economist Alvin Liew expects the MAS to maintain a neutral foreign-exchange policy at its April meeting but to tighten policy in October.

"We remain optimistic about Singapore's outlook in 2010 and continue to expect the economy to return to positive growth of 5.1% in 2010, although we reiterate this year's recovery is likely to be gradual and uneven," Mr. Liew said.

The upward revision to fourth-quarter GDP was also partly a result of a downward revision to growth in the July-September period, which created a lower comparative base.

For 2009, Singapore's economy fell 2%, better than the earlier forecast of a 2.1% contraction. In 2008, GDP grew 1.2%.

The MAS issued rules Friday to head off what it fears is a burgeoning property bubble.

It said the government is increasing the minimum downpayment for a home purchase to 20% of the property's value, from 10%. Banks can finance a maximum 80%. Also, sellers must pay a stamp duty on residences sold with one year.

WORLD NEWS: U.S.

Rethinking the low-inflation mantra

Higher rate would give Fed more room to act, some argue, but risks abound and U.S. policy is unlikely to change

By Jon Hilsenrath

THE OUTLOOK

For the past quarter century, inflation has been a bogeyman that eats wealth and causes instability. But lately some smart people—including the chief economist at the International Monetary Fund and a senior Federal Reserve researcher—have been wondering aloud if a little more of it might actually be a good thing.

For several reasons, however, the idea isn't likely to gain traction any time soon.

The new argument for inflation goes like this: Low inflation and the low interest rates that accompany it leave central banks little room to maneuver when shocks hit. After Lehman Brothers collapsed in 2008, for example, the Federal Reserve quickly cut interest rates to near zero, but couldn't go any lower even though the economy needed a lot more stimulus.

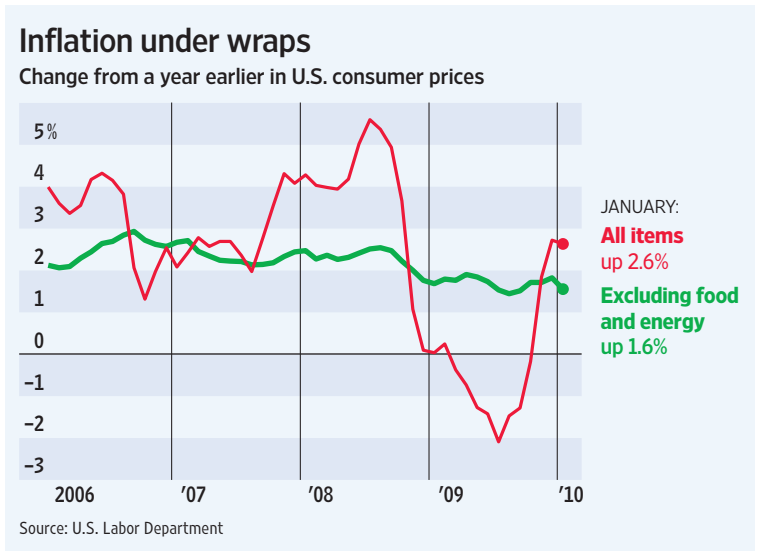
Economists call this the "zero bound" problem. If inflation were a little higher to begin with, and thus interest rates were a little higher, the argument goes, the Fed would have had more room to cut interest rates and provided more juice to the economy.

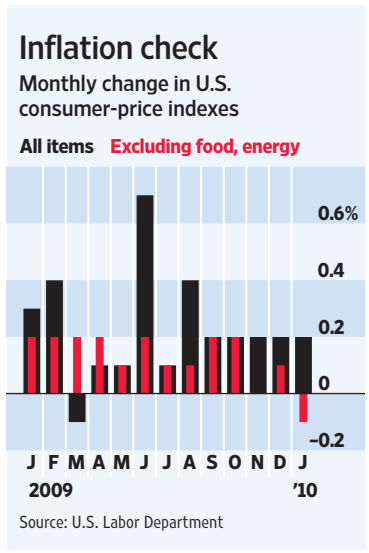
Right now, the Fed and other big central banks have their sights set on inflation of around 2%. Economists had used a "Three Bears" approach to come up with this number—for a long time it seemed like it was not too hot and not too cold. But low and stable inflation could in theory mean something steady at a slightly higher rate.

IMF chief economist Olivier Blanchard, in a recent paper, said maybe the U.S. central bank's future inflation goal should be 4% instead. John Williams, head of the San Francisco Fed's research department, argued last year that higher targets might be needed to provide a cushion for future crises.

The proposals underscore a broader rethink that is rumbling through the economics profession in the wake of the financial crisis. Many of the things economists thought they knew turned out to be wrong.

It's a timely conversation. On Friday, the Labor Department said consumer prices excluding food and energy fell in January, the first monthly decline since 1982. Neither Mr. Blanchard nor Mr. Williams was calling for higher inflation now, but their argument opened the door to that discussion.





But there are problems with the welcome-more-inflation argument.

The first is that it isn't yet clear that the "zero bound" on interest rates is the economy's biggest problem. Thus addressing it might not be worth the costs that would be associated with higher inflation. After the Fed pushed interest rates to near zero in December 2008, Chairman Ben Bernanke found alternatives to more interest-rate cuts: buying mortgage-backed securities and Treasury bonds and funneling credit to auto-loan, student-loan and credit-card markets. Those additional steps were no panacea, but they helped end the recession even if they didn't produce growth fast enough to bring unemployment down quickly.

"Is that the stuff of a zero-bound disaster?" the Atlanta Fed's top economist, David Altig, recently wrote on his blog. "Put me down on the petition to not experiment with higher inflation to avoid a problem that was not so clearly a problem."

There is also a thornier problem. Suppose for a moment that Mr. Blanchard is right, and central banks around the world would be better prepared to fight future crises with a little higher inflation. Getting from 2% to 4% could be a very messy process. Investors, businesses and households might well conclude a one-time shift to a higher inflation target actually means less commitment to stable inflation. Expectations of higher inflation could become a self-fulfilling prophecy. Instead of getting 4% inflation, central banks could end up with 5%, or 6% or 7%.

Mr. Bernanke has acknowledged the allure of a higher inflation goal, but said in written answers to lawmakers in December that switching to a higher target would risk causing "the public to lose confidence in the central bank's willingness to resist further upward shifts in inflation, and so undermine the effectiveness of monetary policy."

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Fewer fall behind on mortgage bills

By James R. Hagerty

Fewer Americans fell behind on home-mortgage payments in the fourth quarter, a sign the default crisis may be peaking, the Mortgage Bankers Association said Friday.

Separately, the Obama administration unveiled plans to provide a modest $1.5 billion to housing agencies in five states hit hardest by the crisis that would fund programs to help people avoid foreclosure.

The trade group said 3.63% of mortgage borrowers were between 30 and 59 days overdue in the fourth quarter, down from 3.79% in the third quarter, based on its quarterly survey of lenders. Normally, that rate rises in the fourth quarter as heating bills and holiday expenses cause people to fall behind.

The decline in this category of newly delinquent borrowers reflects a drop in the number of people losing their jobs, said Jay Brinkmann, the MBA's chief economist.

But the overall number of people in trouble with their mortgages—those behind on payments or in the foreclosure process—continued to grow. At the end of the fourth quarter, 15% of home loans on one-to-four-family homes were in that category, up from 11% a year earlier. For the latest quarter, that equals about 7.8 million households.

"We have fewer problems coming into the system," Mr. Brinkmann said. But "we still have a big problem we have to deal with."

The overall number continued to rise because people delinquent on their loans are staying in their homes longer before losing them to foreclosure. Lenders are overwhelmed with paperwork from foreclosure cases.

At the same time, federal and state programs aimed at saving many borrowers mean that lenders are going through lengthy procedures to determine which people are eligible for easier loan terms. While waiting to be helped or evicted, many people don't make payments.

Some borrowers say they have trouble getting in touch with employees at lenders and often are asked to provide the same documents repeatedly.

About 2.9 million households are 90 days or more behind on payments, but not yet in foreclosure, nearly triple the total of two years ago, according to LPS Applied Analytics, a data provider. On average, those households are nine months behind on payments.

The default problem is largely concentrated in states hit hardest by falling home prices—Arizona, California, Florida, Nevada and Michigan. Those are the states that are designated to get portions of the latest $1.5 billion federal program, dubbed Help for the Hardest-Hit Housing Markets.

The new program is the latest in a wide array of federal efforts to prop up the housing market, including the $47 billion Home Affordable Modification Program, known as HAMP, which gives lenders incentives to reduce payments for struggling borrowers.

Fed plays down move

Dudley calls rate decision 'a very small technical change'

By Michael S. Derby And Jon Hilsenrath

U.S. Federal Reserve officials stepped up efforts to assure markets that a Thursday increase in the discount rate, an interest rate it charges on emergency loans to banks, wasn't a signal that the central bank was trying to tighten credit more broadly.

Stock-futures and credit markets initially reeled Thursday when the Fed announced it was boosting the rate to 0.75% from 0.5% Thursday.

But the stock market edged up Friday, with the Dow Jones Industrial Average rising 9.45 points to 10402.35, and prices for 10-year Treasury notes climbing, while their yields fell to 3.78%.

"We made a very small technical change," Federal Reserve Bank of New York President William Dudley said Friday during a question-and-answer session after a speech in San Juan, Puerto Rico.

"The action yesterday [Thursday] was really an action about the improvement in banks." These institutions no longer need the emergency source of cheap funding as they did during the depths of the financial crisis, he said.

The Fed described the Thursday move as a step toward "further normalization" in its emergency-lending programs initiated during the worst of the financial crisis. It follows the lapsing of unusual lending programs put in place during the crisis, such as one offering short-term loans to blue-chip companies.

Officials chose to announce the discount-rate increase between scheduled meetings of its policy committee in part to underscore the clear separation between this move and the move—still in the future—to lift more economically significant rates, according to Fed insiders.

Fed officials were out in force Thursday evening and Friday with rhetoric aimed at calming market jitters, insisting the step didn't mean they were about to raise other interest rates or tighten credit for the overall economy.

While Fed officials had said a discount-rate increase was coming, financial markets were still taken by surprise. Stocks and bonds fell initially, and some analysts scolded the Fed for sowing confusion.

The discount rate increase "is not at all a signal of any imminent tightening" in monetary policy, Mr. Dudley said. The Fed's more important instrument of monetary policy is the federal-funds rate, which banks charge each other on overnight loans. That remains pinned between zero and 0.25%, and Mr. Dudley said the Fed's commitment to keep this rate very low for an extended period—meaning at least several more months—"is still very much in place."

Markets anticipate an increase in the federal-funds rate in the fall. An increase in short-term rates that affect consumers and business is "off in the future," Mr. Dudley said.

St. Louis Fed President James Bullard offered similar sentiments Thursday in a speech Memphis, Tenn., describing market fears of an immediate rate rise as "overblown."

He said there was a good chance the Fed might stand pat on rates for the entire year. Atlanta Fed President Dennis Lockhart and Fed Governor Elizabeth Duke sounded similar notes Thursday.

Decidedly tepid consumer inflation data underscore the lack of urgency at the Fed to raise rates. But the discount-rate increase indicates that the tide is shifting for monetary policy as Fed officials mull how to shrink their expanded portfolio of loans and securities, and debate whether and when to sell some.

The Fed argument that the discount-rate increase hasn't much economic impact, and the market's belief that it was the first salvo in tightening, highlight the communications difficulties the Fed faces as it steps away from the unorthodox steps it took in the past two years in response to the financial crisis.

"The Fed has introduced some confusion into markets. It doesn't mean rates are going up tomorrow or next month or by midsummer," said David Kotok, chairman of Cumberland Advisors, an investment advisory firm, in a note to clients.

Agence France-Presse/Getty Images

New York Fed President William Dudley in New York in December

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WORLD NEWS: AFGHANISTAN

Clearing Afghan Taliban may take longer

NATO officials acknowledge their forces are facing pockets of unusually stiff resistance to the Marjah offensive

By Alan Cullison

KANDAHAR, Afghanistan—Coalition forces say it could take at least a month to clean out and secure hotly contested parts of Afghanistan's Helmand province, indicating the slow if steady pace of progress as the offensive against the Taliban enters its second week.

North Atlantic Treaty Organization officials had earlier predicted it could take a month to clear booby traps and improvised explosives from Marjah, a center of rebel resistance in Helmand. Lately officials have acknowledged that troops there are meeting some pockets of unusually stiff resistance.

U.S. and Afghan troops were converging Sunday on a western quarter of Marjah, officials said, where a group of remaining Taliban had concentrated and were apparently making a stand.

NATO reported one soldier killed during a shootout in the offensive Sunday, bringing the number of NATO dead to 13 since it began its push into the area.

Separately, a U.S. soldier was killed early Sunday north of Kandahar in southern Afghanistan, a death that NATO officials said wasn't related to the offensive.

That soldier was killed while on foot patrol by an explosive device that gravely injured another soldier, officials said.

General Zahir Azimi, spokesman for the Afghan ministry of defense, said Sunday that the offensive is "on schedule" and that NATO and Afghan forces are proceeding slowly because they want to avoid civilian casualties and explosive devices.

But political pressures are also putting coalition leaders under pressure to show some kind of progress against the Taliban.

In a setback for NATO, the Dutch prime minister said that his country's 1,600 troops would probably leave Afghanistan this year because of domestic opposition to their presence in the country.

The Dutch, who have been concentrated in the relatively stable province of Uruzgan, have been lauded by the U.S. State Department as a stabilizing force in the region and a possible model for the U.S. military in its approach to counterinsurgency.

NATO has lately hailed the arrest of Taliban leaders in neighboring Pakistan as a long-awaited sign of cooperation that could deprive the Afghan insurgency of a safe haven.

NATO forces said Sunday that they captured a suspected Taliban commander in Helmand as part of their breakup of a network of Taliban who were ferrying improvised explosive devices, or IEDs, into the zone of the offensive, though Sangin, in northern Helmand.

But other signs remain of persistent cooperation with the Taliban by Afghan security services even within Afghanistan's security services, which NATO would like to stand up for the fight on its own against the insurgency.

On Sunday, officials in the southern province of Zabul announced that they had arrested eight policemen who had deserted and were trying to flee to Pakistan where they planned to join insurgents.

U.S. bets its best ally in surge is an old one

By Matthew Rosenberg in Kabul And Peter Spiegel in Washington

A few hours after dusk on Feb. 12, U.S. Gen. Stanley McChrystal, the top allied commander in Afghanistan, stepped into an armored car for the short drive from his headquarters to the presidential palace in Kabul. The time had come to decide whether to assault the Taliban town of Marjah. It was up to President Hamid Karzai to make the call.

For both the Americans and the Afghans, who have been fighting together for more than eight years, it was a novel moment. As Mr. Karzai said after being roused from a nap: "No one has ever asked me to decide before."

The exchange, described by Western and Afghan officials with knowledge of the meeting, encapsulates the new American strategy that is at the heart of the effort to reverse the tide of the war, beginning with the offensive in Marjah in southern Afghanistan.

By giving Mr. Karzai responsibility over key elements of the campaign, Western officials are hoping he will seize the battlefield advantage given to him by the arrival of thousands of fresh American troops and turn it into a chance to re-establish his government's—and his own—credibility.

Besides being given the last word on the Marjah offensive, Mr. Karzai has been briefed repeatedly on the battle plans, meeting frequently with Gen. McChrystal and speaking often with officials from Washington, including National Security Adviser James Jones, according to Afghan and U.S. officials.

"We want to make him own this. What we need is to make him into a Winston Churchill who can rally his people," said one person involved in the effort. Mr. Karzai, through spokesmen, declined repeated requests for comment.

Western officials also are bringing Afghan cabinet members into strategy discussions, allowing them to select the officials who will run Marjah once it is cleared of Taliban, and pushing them before the cameras to emphasize the participation of Afghan troops in the offensive.

"This was the first time that his own ministers were directly involved," said Mark Sedwill, the new senior North Atlantic Treaty Organization civilian representative in Afghanistan. "In the past, they've kind of authorized and supplied some forces, but they haven't really felt that they were leading the planning."

U.S. Marine Corps

President Hamid Karzai, right, speaking with Gen. Stanley McChrystal on Jan. 2.

It all represents a major gamble on Mr. Karzai, a politician whose record as an ally is spotty at best.

Initially, after the U.S.-led 2001 invasion, Mr. Karzai was viewed by the U.S. and its NATO allies as a potentially unifying force who could lead the troubled nation out of three decades of war and civil conflict.

As the struggle against the Taliban wore on, and its initial gains became battlefield reversals, Mr. Karzai's reputation plummeted.

His government commanded little authority among the people because of its widespread corruption. Mr. Karzai, holed up in the presidential palace, became an unpredictable force, often openly criticizing coalition forces.

Relations with the U.S. hit a low after the presidential vote last fall, in which he was ultimately reelected but not before U.S. officials had pressed him to acknowledge widespread voting fraud and participate in a runoff.

Since the election, however, Mr. Karzai has been eager to play a more high-profile role, say U.S. and Afghan officials. One U.S. official said Mr. Karzai requested assistance "in getting him out more" to combat the perception he was "the president of Kabul," as he has been mockingly portrayed.

In addition, Mr. Karzai has taken some steps, including an inaugural address where he promised to tackle corruption and governance problems, that encouraged U.S. officials.

A senior Obama administration official, asked about the differences over the election, said, "I think we've moved beyond that, and so has he." The official added: "Karzai can say all the right words in his inaugural address, but he needs help. He needs a partner who can help him move from concept to practice."

U.S. officials have concluded that despite Mr. Karzai's failings as a leader, they have to find a way to make him lead if they are to succeed. "Gen. McChrystal likes to say that he is not the president of Afghanistan," said a coalition officer.

Giving Mr. Karzai a high-profile role in the Marjah operation is seen as the best hope for rebuilding the frayed relationship and, in the process, cleaning up his government.

Some officials note that in Iraq, Nouri al-Maliki, the prime minister once criticized as ineffectual, went through a transformation in how he was perceived, winning credibility among Iraqis seeking a strong leader after he ordered a 2008 offensive in Basra against Shiites allied with Iran.

U.S. officials acknowledge they are concerned that Mr. Karzai, 53 years old, isn't embracing his new role. He has delegated many of the interactions with the regional government in Helmand province, where Marjah is located, to his cabinet, particularly Defense Minister Abdul Rahim Wardak and Interior Minister Hanif Atmar.

Mr. Karzai's first public utterance after the start of the operation in Marjah was to criticize the coalition for civilian deaths. In his second public comment, on Saturday, he again said allied troops battling the Taliban must redouble their efforts to avoid killing civilians. But unlike his past pronouncements on the issue, Mr. Karzai credited NATO forces for "doing their utmost to minimize the civilian casualties."

At least 15 civilians have died in Operation Moshtarak. The Associated Press said Sunday that 15 allied soldiers, one Afghan soldier and perhaps more than 120 Taliban have been killed.

The senior Obama administration official said the White House understands it is important for Mr. Karzai to speak to his Afghan constituents, particularly in Helmand, where insurgents have used civilian casualties to rally opposition to the international presence.

"There's what would appear to be presidential from London, Paris or Washington, and then there's what would appear to be presidential from Kandahar," this official said, referring to the southern Afghan city. "He's playing to his political constituency as any national leader would."

There is a risk, too, in handing over big appointments and the handling of Marjah, a town of about 75,000, to the Afghan government.

The Afghan choice for someone to run Marjah after the fighting stops is a man named Haji Zahir, about whom coalition officials know little. Afghan officials have been vague about his past. Mr. Zahir, who is near the front lines and preparing to enter the town accompanied by four American "mentors," couldn't be reached.

The Afghan army and police are still works in progress, beset by desertions, and their members frequently picked off by the Taliban. The police, in particular, are despised by many Afghans, who view them as corrupt and predatory.

Corruption in the Karzai government is one reason the Taliban have carried the momentum despite inferior forces. They have set up shadow governments in areas they control and brought a measure of stability and justice, if often brutal.

The Taliban controlled Marjah for more than two years. Coalition forces now are gradually establishing control there.

With the fighting slowing, allied officials now are getting ready to roll out what they're calling a "government-in-a-box"—a ready-made administration for the town—and pump millions of dollars into the area. The idea is to restore the government's credibility quickly. If the plan works, Marjah is to be the blueprint for offensives across a broad arc that is home to more than 80% of the people of southern Afghanistan, the Taliban heartland.

The senior Obama administration official said that the recent interactions between senior American officials and Mr. Karzai haven't been efforts to "carry the water for President Karzai," and that the Afghan president is "sold on the value" of having a prominent role in the operation.

Not all U.S. officials are convinced. Some are concerned that by working so closely with U.S. commanders, Mr. Karzai could further undermine perceptions within Afghanistan of his independence. One U.S. official said there are other priorities Mr. Karzai needs to focus on, including reintegrating moderate Taliban factions into the government. "Yes, there's interest in having Karzai be seen as not only supportive but engaged, but I wouldn't overstate it," said this official.

WORLD NEWS

Egypt cuts off Hamas

Cairo's plan to block Gaza tunnels seals key smuggling routes

By Charles Levinson

RAFAH, Gaza Strip—Egypt is pressing ahead with construction of an underground barrier between it and the Palestinian-controlled Gaza Strip, an effort to close more than 1,000 smuggling tunnels—the enclave's only significant trading channel to the outside world.

The move by Cairo threatens to harden a blockade of Gaza, put in place by Egypt and Israel after Hamas won Palestinian-wide elections in 2006. The siege was tightened in 2007 when the militants took control of Gaza in a bloody rout of its rival Palestinian faction, Fatah.

The tunnels have allowed Hamas to avoid the worst impact of the blockade. If the Egyptian barrier successfully shuts this lifeline to the outside world, it could threaten a delicate status quo that has grown up here since the Gaza War ended in January 2009.

That war began when Hamas resumed launching rockets at Israel in late 2008 after a six-month cease-fire because Hamas felt Israel hadn't lived up to its end of the bargain by relaxing the siege. Israel responded with a 23-day assault because it was neither willing to tolerate more rocket fire nor open up the border crossings as Hamas wanted. Thus the tunnel boom after the war—although it allowed Hamas to rearm—also let both sides avoid making difficult compromises without enduring a humanitarian crisis or more violence. Last year was one of the least violent years in memory along the border.

Egypt has long helped to enforce the siege by keeping official border crossings with Gaza mostly closed, but it turned a blind eye to tunnel trade. Last year, Cairo had a change of heart after a series of incidents led Egyptian security officials to conclude that the tunnels were attracting groups and individuals to its territory that could pose a threat to Egypt itself.

In April, Egyptian authorities arrested a group of Hezbollah operatives, whom it accused of planning to target Suez Canal shipping, among other things.

"It came to the attention of our security services that those tunnels were being used in ways that threaten Egyptian security," said Hossam Zaki, a foreign ministry spokesman.

Egypt began work on the border fortifications around the start of the year. That coincided with the collapse of Egypt-brokered talks between Hamas and Fatah. Egypt has blamed Hamas for the collapse of the talks, which are seen as a stepping stone to any Israeli-Palestinian peace accord.

Israel has praised Egypt's stepped-up efforts to combat smuggling. Egypt says its security was threatened by a growing flow of illicit goods and militants through its territory.

Recent Palestinian anger at the Egyptian construction has turned violent, including a Jan. 6 shooting that left an Egyptian border guard dead, allegedly by a Palestinian sniper.

The tunnels were dug in the 1980s to smuggle drugs, weapons and other illicit goods into Gaza. But in the past year or two, they have blossomed into what is essentially a regulated port of entry for the Hamas-administered Gaza government, through which 80% of the enclave's imports arrive, according to United Nations officials. Without the tunnels, Gazans would have no reliable means of getting goods. "We feel pain and anger towards Egypt over the steel wall on our border," said Ismail Haniya, prime minister of the Hamas-led government in Gaza.

Hamas at first adopted a hands-off approach to the tunnels, and Palestinian operators saw opportunity. In 2008, they began courting Gaza City businessmen as investors and customers in new tunnels.

Along with basic commodities and consumer goods, Hamas and other militant groups used the tunnels to import weapons.

Egypt has provided few details on the nature of its barrier. Mr. Zaki said it is an "underground construction" that will be finished within a year. He said it will stop at least 60% of the contraband going to Gaza.

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MANAGEMENT

Establish brand image in online media

Zero-budget advertising builds word-of-mouth marketing you can't put a price on; remark-worthy messages

By Mahesh Murthy

From the WSJ's India Chief Mentor blog, produced by a panel of Indian entrepreneurs and investors, at wsj.com/mentor:

One thing I learned from my days in traditional advertising is that a brand doesn't exist on shelves—it exists in the hearts and minds of people. Your brand is the sum total of perceptions about your product in the heads of your relevant audience.

If that's true, then online media are the most important place for your brand image to be established, defended and grown. This is where your offering comes face-to-face with your audience and where its responses can be measured, shaped and—if need be—countered in real time. This is where perceptions can be built, person by person.

This brand building is more effective that the mode we've employed until now: TV commercials with 30 seconds of well-produced fiction that try to sell a brand image. It is more credible and much less expensive. In fact, it can cost you nothing, if you have the knack and can do it right. Not too many TV campaigns can match that.

Zero-budget advertising is a phrase no traditional advertising firm wants to hear. The old ad business is predicated on your spending lots of money buying space and time in media vehicles such as this one. But if you look at recent times, it's a model that is dying.

Look at some of the world's biggest brands. **Google**, **Amazon**, **Ferrari**, **Starbucks**, **Ikea**, **eBay**, **Zara**, **Yahoo**, **Apple**, **Harley Davidson**, **Reuters** and **Goldman Sachs** are a dozen among the 100 top brands in the world per a recent study by brand management firm Interbrand, each with a "brand value" that averages $10 billion. Word of mouth played a major role in building those brands. We await the Apple iPad with no ads released yet, we talk of Google Buzz without having ever seen a Google ad, and we throng to a Zara outlet without seeing its commercials on TV.

Today, the best way to establish your brand among big-hitter rivals is to make it remark-worthy and generate conversations free of charge. See how Red Bull took on big-ad-buying Coke and Pepsi with a product that sold at a higher price for a smaller pack size and built it to a billion-dollar brand with little advertising? The new axiom, call it Mahesh's Law, is this: your marketing IQ is inversely proportional to your marketing budget.

Start on your brand by answering a simple question: Are you remark-worthy? When someone talks about your offering, is there a 10-second sound bite that is "retweetable" on Twitter? If not, go back to basics and craft a simple, clear hook that that sets you apart. Like: Google helps you find stuff better, Harley owners are a cult, Starbucks is a great place to be, Red Bull lets you party harder.

Now apply a single test: Do a Google search on your brand to see whether every element of the resulting page can support this position. Among the results will be your Web site, news items about you, other Web users who mention you, blogs about you, tweets about you, videos starring you and such.

Now work to own the presence in each of these elements.

Start with the Web site. If it's got corporate gobbledygook and you don't go back a second time, users won't either. Make it something worth talking about and worth returning to. Find a Web firm that understands your brand, and not a tech firm. Or do it yourself if you're starting out.

Then audit every mention of you. Google alerts alone won't do it, but it's a start. See who's saying what.

Then intervene in conversations and respond to complaints, visibly, with your own Twitter account or some other way of interacting. It's important that onlookers see your response to a complaint in the open so they know that you can take care of theirs too, if they ever have one. This is where your real brand is built.

Are you seen as the one to talk to in your industry? What will make it so? Issue white papers or surveys, or give out fun statistics. Do the things regularly that give you thought leadership in your niche.

Are there fun or educational videos you're part of? Put them up, even if they're shot on your phone. Are there competitors being talked about? Intervene, and respectfully make your presence felt.

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Mahesh Murthy is the Founder of digital brand-management firm Pinstorm and a venture capitalist at Seedfund. He tweets as @maheshmurthy.

Apple has generated strong buzz for its coming iPad without advertising.

Getty Images

The Power List

The top business leaders in Asia making headlines last week in select global and regional media. Powered by Dow Jones Factiva and edited for relevance and clarity.

AKIO TOYODA

President
Toyota Motor

Mr. Toyoda is set to appear before the U.S. Congress Wednesday, where he said he will offer "sincerity" to the public over the company's quality woes.

SUNIL BHARTI MITTAL

Chairman
Bharti Airtel

The Indian telecom company is pursuing a $9 billion deal for Mobile Telecommunications' Zain Africa assets in an attempt to broaden its customer base.

CARL-PETER FORSTER

Chief Executive
Tata Motors

In his new position announced last week, the former General Motors executive will seek a solution to Jaguar Land Rover, which has weighed on the Indian auto maker's results.

LU YIMIN

President
China Unicom

Mr. Lu's company is involved with the bidding for Nigerian Telecommunications – or is it? China Unicom has denied what Nigerian officials are insisting.

SHELDON ADELSON

Chairman, Chief Executive
Las Vegas Sands

The casino operator's fourth-quarter loss narrowed on revenue growth from Macau, which Mr. Adelson said "provides strong momentum as we resume construction activities" there.

Photos: European Pressphoto Agency (Toyoda), Reuters (Bharti, Lu), Getty Images (Forster), Bloomberg News (Adelson)

Compiled by Carlos Tejada/ The Wall Street Journal

The Airtel Example

All eyes will be on India's finance minister Pranab Mukherjee this week as he unveils the Congress Party-led government's first budget of its second term in power. There is little hope for a "big bang" reform of the likes seen in the 1990s. Too bad, because as India's mobile-phone companies show, the private sector can work wonders, if Delhi would only unshackle it.

> Delhi inadvertently provides a model for how to deregulate telecoms.

India's mobile market is a marvel compared to anywhere, and seems downright miraculous in a country where hundreds of millions of poor people still lack electricity. Indians pay among the lowest mobile calling rates in the world—less than one U.S. cent per minute. A handset goes for as little as $50. Competition is so fierce among the 13 providers that they're forced to invent new services, too. Farmers can now receive commodities-price data over their mobiles, and mobile-phone banking is shaping up to be the next big thing. No wonder each month up to 10 million additional customers start using mobile phones. Bharti Airtel's $10.7 bid for the Africa business of Kuwait's Zain suggests Indian companies may now be in a position to export these innovations profitably, too.

Policy makers jealously eyeing India's mobile successes—including perhaps some in Beijing—can note that the smartest thing New Delhi has done is to get out of the way. India in 1994 issued its first licenses for mobile services to two private-sector companies in four geographic areas. In the mid-90s Delhi expanded service to 18 additional areas, and in 2001 and 2002 it issued licenses for two more operators in each market. From there the number of licenses has only continued to expand.

At the same time, the government has cut its licensing fees for service providers. In 1999, Delhi switched from a fixed fee to a percentage-of-revenue model. That freed providers to charge lower calling rates by removing what amounted to a fixed per-user tax. Since then the tax rate has continued to fall, from as high as 12% in 1999 to as low as 6% today. Delhi also cut and then scrapped entirely the "Access Deficit Charge" mobile providers paid to support state-owned telecoms in providing fixed-line services.

Other regulatory improvements have also played a role. Delhi has steadily raised its cap on foreign investment in mobile service providers, to 74% from 26%, though the Indian partner must still have managerial control. Five of the top 10 providers by subscriber numbers enjoy some degree of foreign investment. Foreign investment has offered Indian companies a ready source of capital to fuel expansion and innovation. Notably, price controls have not factored into this success story although India has a form of them: Thanks to fierce competition, the market rate for a mobile call has been consistently less than Delhi's "recommendation" of a fair rate for at least the past decade.

This isn't to suggest that India's mobile-services regulation is flawless. Delhi still doesn't offer nation-wide licenses; providers must obtain approval for each geographic area they want to enter. Auctions for licenses to provide next-generation mobile data services have been marred by delays and allegations of corruption. Nor does Delhi deserve credit for having this liberal model in mind all along. Liberalization has been a messy process, often fueled by the total collapse of earlier regulatory models (as when a botched license auction in the 1990s threatened to bankrupt key providers) or roundabout litigation (with the expansion of licenses in the middle of last decade).

Still, whether deliberately or by accident, India has stumbled its way into a pro-competition model that works. Nor is mobile telephony the only example; automobiles are another. First in 1983 and then in a bigger way a decade later, Delhi opened up its auto sector to foreign competition and investment. It also cut tariffs on imported autos and parts, though they're still high. Despite the strictures that remain on the industry, this opening has been enough to spur investment and production. And competition and innovation. Note that the Tata Nano, billed as the world's cheapest car with an expected price of only $2,500, was developed in India to suit that market.

We recount all this at length to make a simple point: Economic freedom works. Policy makers who want their countries' companies to become world leaders can take a lesson from India's mobile-phone market. Competition at home, not protection, is the surest path to success.

Please Don't Call It Tightening

Whatever else you call it, please don't describe last Thursday's Federal Reserve decision to raise the discount rate by 0.25% as any "tightening" of credit. That was the message from the Fed itself, which seems intent on keeping money as easy as possible for as long as possible.

The discount rate—sometimes called the "penalty rate"—is what the Fed charges banks that borrow from the Fed when they need liquidity. The discount rate is not to be confused with the fed funds rate, which determines the price of short-term credit throughout the economy. Yesterday's move takes the discount rate up to 0.75%, though it is typically a full percentage point higher than the fed funds rate, which remains at an historic low between 0% and 0.25%.

The discount move makes sense, and is if anything overdue, given the return to health of the overall financial system. Banks have been riding the yield curve—borrowing at 0.25% and lending long—to make piles of money, and there's no reason not to restore a normal penalty rate.

Meanwhile, we assume the Fed noticed the same day's report of a 1.4% increase in producer prices in January. Wholesale prices are up 4.6% over a year ago and an annual rate of 9.8% in the past six months. Most of this increase came from energy, which the Fed will want to dismiss because it is not part of its "core" price index. Consumers at the gas pump or paying their monthly electric bills may feel differently. Even core prices, which exclude food and energy, are up at a 3.2% annual rate in the last three months.

The Fed's extraordinary easing for more than a year despite a building recovery means we are in uncharted territory regarding future price pressures. The sooner the Fed begins the return to normal, the better the odds of a durable expansion.

Obama and Iran

These have been busy days for Iran's leadership. On January 28, the regime hanged two government opponents and sentenced 10 others to die. It has arrested and jailed some 500 opponents since December. Two weeks ago, it shut off access to Gmail and Google Buzz, as it already has done with Twitter, to prevent opposition forces from organizing. On the 31st anniversary of the Islamic Revolution, it jammed the streets of Tehran with supporters and security forces. Oh, and Mahmoud Ahmadinejad announced that Iran has begun enriching uranium to 20% purity, making it a "nuclear state."

Maybe now we can all agree that "engagement" with Iran has failed. So where does the Obama Administration go from here? It seems to be moving on multiple, not always coherent, fronts.

Last Wednesday, the Treasury Department imposed sanctions on a commander of Iran's Revolutionary Guards Corps along with several IRGC-related companies said to be involved in WMD programs. And last week, Secretary of State Hillary Clinton warned that Iran may be evolving into a military dictatorship, with the Revolutionary Guards essentially running the show.

> Engagement has failed. The President needs a new strategy.

The U.S. is also trying to get the U.N. Security Council to agree to a new round of sanctions on Iran, over continued Chinese opposition. A Western diplomatic source tells us we can probably expect another essentially symbolic U.N. resolution in the coming weeks.

Then there is Congress, which in the past two months has voted overwhelmingly for legislation that targets companies doing energy business with Iran. The two bills must now be reconciled, but the State Department has previously sought to postpone the measures on grounds that they would constrain its room for diplomatic maneuver and could hurt the Iranian people.

Our sources tell us the Administration may now reluctantly be willing to let Congress play bad cop as it pursues its sanctions options at the U.N. and, separately, with the Europeans. That's fine as far as it goes, but then again, we doubt even this Administration thinks that these sanctions alone can alter the regime's behavior, much less force its collapse. Instead—and in the absence of a credible threat of the use of U.S. military force—the Administration seems to be gambling its Iran policy on a set of assumptions that look increasingly wishful.

One of these assumptions is that there may still be a "grand bargain" to be struck with the Iranian leadership, notwithstanding its refusals to do so last year amid President Obama's overtures. The Administration also allowed itself to imagine that Iran's protest movement would force the regime to take a more conciliatory nuclear line. It seems to have done the opposite.

All of this suggests the need for a new U.S. strategy that drops the engagement illusion and begins to treat Iran as the single biggest threat to Mideast and U.S. security. Sanctions can be part of that strategy, but they will need to be more comprehensive than anything to date. They must also be ramped up rapidly because they will need time to be felt by the regime. The U.S. should give up on the U.N., which will only delay and dilute such pressure, and build a sanctions coalition of the willing.

The U.S. can also speak and act far more forcefully and clearly on behalf of Iran's domestic opposition. The regime's recent crackdown suggests that the chances of regime change in the near term are remote, but popular animosity against Iran's rulers still seethes underground. The U.S. should assist that opposition in any way it can, especially with technology to help communicate with each other and the world.

Finally, the option of a military strike will have to be put squarely on the table. Sanctions have little chance of working unless they are backed by a credible military threat, and in any case Israel is more likely to act if it concludes that the U.S. won't. The risks of military action are obvious, but the danger to the world from a nuclear Iran is far worse.

OPINION

Life Among the 'Yakkity Yaks'

[The Journal Interview] with Temple Grandin

By Bari Weiss

"Who do you think made the first stone spear?" asks Temple Grandin. "That wasn't the yakkity yaks sitting around the campfire. It was some Aspberger sitting in the back of a cave figuring out how to chip rocks into spearheads. Without some autistic traits you wouldn't even have a recording device to record this conversation on."

As many as one in 110 American children are affected by autism spectrum disorders, according to the Centers for Disease Control. Boys are four times more likely to be diagnosed than girls. But what causes this developmental disorder, characterized by severe social disconnection and communication impairment, remains a mystery.

Nevertheless, with aggressive early intervention and tremendous discipline many people with autism can lead productive, even remarkable, lives. And Ms. Grandin—doctor of animal science, ground-breaking cattle expert, easily the most famous autistic woman in the world—is one of them.

Earlier this month, HBO released a film about her to critical acclaim. Claire Danes captures her with such precision that Ms. Grandin tells me watching the movie feels like "a weird time machine" to the 1960s and '70s and that it shows "exactly how my mind works."

At the Manhattan screening I attended, Ms. Grandin was dressed in her trademark look—an embroidered cowboy shirt, in this case brown with a red neck kerchief—and was holding forth confidently, cracking self-deprecating jokes. Parents of children with autism thanked Ms Grandin for her books; she's the reason they can relate to their children. Teachers asked for specific recommendations: How can they capitalize on their autistic students' obsession with dinosaurs? A boy, perhaps 10 or 11, sought Ms. Grandin's advice on how to deal with the bullies that pick on his nonverbal brother.

Her cadence is unusual, staccato-like, and her pale blue eyes sometimes drift off into the distance. But she seems a different person from the young woman in the film, for whom being hugged, let alone schmoozing at a cocktail party, seemed physically painful. What's changed?

"The thing about being autistic is that you gradually get less and less autistic," she says, "because you keep learning, you keep learning how to behave. It's like being in a play; I'm always in a play."

Her rehearsal began early and in earnest. Born in 1947, she did not speak until the age of four. All of the doctors recommended permanent institutionalization; her father agreed.

But her mother refused and hired a speech therapist and a nanny who spent many hours a week taking turns playing games with her daughter. She insisted that Temple practice proper etiquette, go to church, interact with adults at parties. "I'd be in an institution if it wasn't for her," Ms. Grandin says.

She has always thought socializing was boring, and she famously described herself as "an anthropologist on Mars" to neurologist Oliver Sacks when explaining her interactions with typical people. As a teenager, while her peers fixated on boys and pop culture, Ms. Grandin was consumed with scientific experiments.

Her first major invention, at 16, was a "squeeze machine"—a device she modeled on the squeeze chutes used to restrain cattle that she first saw on her aunt's ranch in Arizona. "I noticed that when the cattle got into the squeeze chutes they got calmer," she says, "so I built a plywood device I could get into that was similar, because I had these horrible, horrible anxiety attacks." The physical pressure calmed her tremendously.

These days, Ms. Grandin is known as much for her professional work—she revolutionized livestock handling equipment—as for her expertise on autism. "I've always thought of myself as a cattle handling specialist, a college professor first; autism is secondary," she says. But she does credit her autism for her unique ability to relate to cattle.

Ms. Grandin wondered what made the animals moo and balk. Kneeling down to see things from a cow's eye view, she took pictures from within the chutes.

She found cattle were highly sensitive to the same sensory stimulants that might set off a person with autism, but were inconsequential to the average handler. They were shockingly simple revelations: light and shadow would stress the animals, as would grated metal drains. Prodding and hollering from cowboys, intended to move cattle along, only alarmed them further.

Her designs reflected these insights. A curved, single-file chute mimicked the cattle's natural tendency to follow each other. She replaced slated walls with solid ones to prevent cattle from seeing the handlers and cut down on light and shadow.

Today, half of the cattle in this country pass through the slaughter systems that Ms. Grandin invented. She's a consultant to companies like McDonalds and Burger King. Yet—and she might well be the only person with these two associations—she's also been honored as a "visionary" by PETA for making slaughterhouses more humane.

* * *

When Ms. Grandin isn't teaching at Colorado State University, she's traveling the world lecturing or promoting her (10) books. Whether discussing animals or autism, though, she always comes back to the defining feature of her mind, the characteristic that allowed her to create such accurate equipment designs: she literally thinks in pictures.

Nancy Minshew, a professor of neurology at the University of Pittsburgh, conducted tests on her brain that showed a "gigantic, huge trunkline going back into the primary visual cortex," Ms. Grandin says. Translation for the layperson: "I basically have a gigantic graphics card."

So when Ms. Grandin says "Google me," as we sit down for a more intimate conversation after the film, she's not suggesting I look up the half-million references to her on the Web. She's challenging me to test her photo-realistic brain. "And don't pick something easy like house or car," she instructs.

Zina Saunders

Ok, how about love? "Herbie the Lovebug. My mother." God? "I've got this Hubble Space telescope poster of 100 galaxies." What about something even more abstract, like responsibility? "I see people that have done bad things with terrible consequences: Michael Vick. Tiger Woods. Bill Clinton."

People on the "spectrum" tend to be just as obsessed with things and the way things work as they are uninterested in social relationships. And, as Ms. Grandin observed, people interested in things make important advancements—particularly in engineering, science and technology.

Which is not to say she romanticizes this disorder. The politics around autism are fraught with landmines, and Ms. Grandin follows the issues very closely. She approaches them like the scientist she is: exacting, realistic, pragmatic. What sets Ms. Grandin apart is that she knows what autism feels like, and, unlike so many others with the disorder, she can articulate it.

Last week, the American Psychiatric Association unveiled its proposed revisions to the DSM (Diagnostic and Statistical Manual of Mental Disorders), the bible of the field. Up for revision are Aspergers and autism. The association recommends scrapping both and replacing them with the umbrella label of "autism spectrum disorders."

"From a scientific standpoint, Aspergers and autism are one syndrome," Ms. Grandin says, reflecting the scholarly consensus. "Aspergers is part of the autism spectrum, not a separate disorder." But "the problem is you have a whole lot of people that have labels and identify with the label."

Perhaps more significantly, earlier this month Britain's esteemed medical journal, The Lancet, formally retracted its 1998 paper that linked vaccinations to autism. That paper, whose primary author was Dr. Andrew Wakefield, studied 12 children who exhibited autistic behaviors. The authors suggested they were caused by the measles-mumps-rubella vaccine. The paper set off a firestorm, fueling the antivaccine movement perhaps best associated with the actress Jenny McCarthy, whose son is autistic.

"Scientifically, there's still some things to be done," Ms. Grandin says. Scientists need to study "the kids where they seem to have language and then they lose it at 18 months to two years of age." She adds: "I've talked to too many parents that have talked to me about regressions that I can't just pooh-pooh that off."

But, she adds emphatically, this does not mean parents should stop vaccinating. "We can't stop vaccinating because we're going to end up with all these childhood diseases. I mean, I grew up with iron lungs. . . . That was horrible, dreadful . . . We can't go back to that."

So what does she recommend? "If you have autism in the family history," or other auto-immune problems, "you still vaccinate. Delay it a bit, space them out." There is, she says, a "strong genetic basis" for autism, and she has a "very typical family history" that includes anxiety and depression on both sides of the family, intellectual giftedness, lots of food allergies and engineers ("my grandfather was an engineer who invented the automatic pilot for airplanes"). This is why, she says, "there tends to be a lot of autism around the tech centers . . . when you concentrate the geeks, you're concentrating the autism genetics."

Many talk of an autism epidemic—has there been a spike in autism lately? "You know the geeks have always been here. They used to call them geeks, nerds and dorks. Now they're getting labeled Aspbergers—there's just a point where it's just normal personality variation."

But, Ms. Grandin adds, "some of the severe autism has increased." As to what is causing it, she mentions the possibility of environmental toxins interacting with "susceptible genetics." A study released last week by researchers at the University of California, Davis, found that women over the age of 40 who give birth are twice as likely to have a child with autism as those under 25.

While she's adamant that there is no magic cure for this disorder, Ms. Grandin says she has seen some "very big improvements" with special diets, like wheat-free and diary-free. She says the low doses of antidepressants she's been on for over 30 years are "magic," and have saved her from constant panic attacks and anxiety.

Mostly, though, her advice is simple: It's about hard work. Young children need 20 or 30 hours a week of one-on-one time with a committed teacher or mentor. Money, Ms. Grandin says, should not be an obstacle. If you can't afford a professional teacher, find volunteers through your church or synagogue, she says. Parents need to teach 1950s-style social rules "like please and thank you, basic table manners, how to shop."

There have to be high expectations. She's worried about the "handicapped mentality" that she thinks is increasing. "When I see these kids with 150 IQ and their parents want to put them on Social Security [disability], it drives me nuts." These kids "will come up to the book table and start talking about 'my Aspergers.' Why don't you talk about becoming a chemist, or a computer programmer, or a botanist?"

She continues: "It's important to get these autistic kids out and exposed to stuff. You've got to fill up the database." Silicon Valley and the tech companies are like "heaven on earth for the geeks and the nerds. And I want to see more and more of these smart kids going into the tech industry and inventing things—that's what makes America great."

* * *

Ms. Grandin lives in a simple apartment in Fort Collins, Colo., and has used the profits from her books to put students through school. "Four PhDs I've already done, I'm working on my fifth right now. I have graduate students at Colorado State—some of them I let in the back door, like me: older, nontraditional students. And I've gotten them good jobs."

"You know what working at the slaughterhouses does to you? It makes you look at your own mortality."

"When I was younger I was looking for this magic meaning of life. It's very simple now," she says. Making the lives of others better, doing "something of lasting value, that's the meaning of life, it's that simple."

How about meaning, I ask. What's the picture for that word? "Ok, now I'm seeing a mother saying your book helped my kid go to college—that's meaning. Or my kid got a job because of one of your lectures—that's meaning. Or a rancher comes up and says that piece of equipment works really well—that's meaning. Concrete, real stuff. On. The. Ground."

Ms. Weiss is an assistant editorial features editor at the Journal.

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OPINION

An American in Burma's Gulag

By Wa Wa Kyaw

On Feb. 10, a court inside Burma's notorious Insein Prison sentenced my fiancé, Nyi Nyi Aung, to three years hard labor in prison to punish him for his democracy advocacy. The conviction of a political prisoner in Burma is no surprise. What was a surprise was the U.S. State Department's measured three-line response.

When we became Americans, Nyi Nyi and I took an oath to "support and defend the Constitution and laws of the United States of America against all enemies, foreign and domestic." And yet, to the U.S. government, Mr. Aung might as well just be one of the other 2,100 political prisoners languishing in a Burmese prison. He has been horribly tortured and repeatedly denied access to both U.S. consular officials and his lawyers.

Still, President Barack Obama and Secretary of State Hillary Clinton are silent. The State Department's only statement came from Assistant Secretary Philip Crowley, saying that his imprisonment is "unjustified," and urging his release.

Mr. Aung was arrested by Burmese authorities at the Rangoon airport on Sept. 3, 2009. He traveled to Burma to visit his mother, who has cancer. The junta imprisoned her after the 2007 protests because of her pro-democracy activities, and is denying her medical treatment. Mr. Aung, himself a peaceful democracy activist, was initially charged with violating Burma's national security act because he was supposedly "breeding hardcores." a suggestion that he was creating a new generation of activists intent on violently overthrowing the junta. In fact, he has worked independently for years as a non-violent activist supporting numerous groups inside and outside Burma that were documenting and publicizing human rights abuses and peacefully advocating for national reconciliation between the junta, the National League for Democracy, and ethnic groups.

The junta soon realized that even its kangaroo courts couldn't sustain this accusation, so they dropped the charge and leveled a slew of more minor charges against Mr. Aung. These include such supposed offenses as failing to renounce his Burmese citizenship, something a junta official admitted under cross-examination he hadn't seen anyone charged with over his 20-year career in the foreign service, according to a U.S. Embassy official observing the trial. He was also charged with illegally importing currencies into the country—despite the fact that he was detained at immigration before having the opportunity to declare currency at customs.

Mr. Aung was initially detained for 17 days before receiving consular access. Over much of this time, the junta denied him food and water, kept him awake around

Associated Press

Insein Prison in Rangoon is believed to hold hundreds of political prisoners.

the clock and beat him repeatedly. Then, for four weeks in December and January, the junta kept him in solitary confinement in a cell, in the dark, without any bedding or a toilet, with dogs barking all around him. My lawyers tell me that these are extraordinary violations of Burmese and international law. All I know is that I cannot believe that anyone is treated this way, let alone an American.

This, unfortunately, wasn't a new experience for Mr. Aung. Back in 1988, he had been active as a high-school student organizing peaceful protests of student groups and had even been detained briefly and badly tortured by the military junta. He and I fled separately to the U.S. following the violent military crackdown on student demonstrations in Burma.

We couldn't have been more grateful to be in the U.S. At last, we were citizens of a country that cherished democracy, freedom and human rights—everything that the Burmese junta stood against. We lived our own American dream; Mr. Aung got his degree in computer science from Purdue University and served in government at the U.S. Patent and Trademark Office. I became a hospice nurse. And we fell in love and got engaged.

But over the past five months our government has betrayed us. Prominent members of Congress, both Democrats and Republicans, have repeatedly asked Secretary Clinton to contact the Burmese foreign minister prior to the verdict, but she ignored these requests. This is the same administration that has also let a year pass without appointing an ambassador-ranked special representative on Burma policy, despite being required by law to do so.

So now I must speak for Mr. Aung, as he has so often spoken for others. President Obama and Secretary Clinton, my message is simple. Neither your words nor your actions show that you take my fiancé's imprisonment seriously. I beg you to stop ignoring his plight, and to help secure his release from this illegal and unjust imprisonment. Just as Nyi Nyi continues to live up to the oath we took to defend America, please, live up to the promise America made to defend us.

Ms. Kyaw is a hospice nurse based in Maryland.

Israel and the Dubai Murder Mystery

By Ronen Bergman

Israelis woke up Wednesday morning to pictures of 11 individuals plastered on the front page of every newspaper. The familiar guessing game began immediately: Don't I know him? Didn't we serve in the same army unit? Isn't that guy my geeky neighbor, the one who says he's an accountant? An acquaintance of mine swore she had dated one of the men. "He behaved exactly like you'd expect a killer to behave," she said.

Nearly everyone believes that the 11 alleged members of the hit squad that killed Hamas leader Muhammad al-Mabhouh last week in Dubai are Mossad agents. Seven of the 11 identities used were stolen from other Israelis with dual European citizenship.

The mission was technically successful. The target was eliminated—allegedly smothered by a pillow in his hotel room—and the operatives left the country within hours. But it has turned into a diplomatic nightmare for Israel. The sovereignty of Dubai was violated, and the passports of four European countries were used for the purpose of committing a crime.

No country that faces the threat of foreign terrorism on the scale that Israel does can afford to entirely renounce the use of targeted assassinations, despite the ethical and legal problems that such executions raise. But such acts need to be extremely rare. In the case of Israel, such operations require the explicit approval of the prime minister, and they are authorized only after the political risks are carefully weighed. Either the risks were not explained to Prime Minister Bibi Netanyahu or he made a serious miscalculation.

But the real achievement in this affair belongs to the Dubai police, who were able to integrate all the evidence at their disposal into one clear picture and do so with remarkable speed. The investigators managed to put together still and video shots taken in seven different locations and place them on a single timeline together with the cellphone records of the individuals in the footage.

How did the Dubai police manage all this? Did they have help? In any case, misjudging the ability of the Dubai authorities so spectacularly is a serious intelligence failure on the part of the organization that sent out the squad.

In a sense, this past week was the end of an era in undercover operations: it is no longer possible to carry out assassinations without leaving a trace. In addition to closed circuit TV systems and the ability to track cellphone and computer users, advanced biometric identification systems and online coordination across borders are becoming more widespread. Soon it will be easier to identify and detain suspects in public places such as airports in real time.

These advancements should be welcomed; they make the war on terror a lot more efficient. The problem is that the same tools we use to thwart terrorists can also be used against the people whose job it is to stop them.

Mr. Bergman is a senior military and intelligence analyst for Yedioth Ahronoth, an Israeli daily.

Time to Tackle India's Budget Deficit

By Eswar Prasad

The Indian economy proved resilient during the global financial crisis, partly as a result of aggressive measures to boost government expenditures and cut taxes. These measures, which pushed the central government deficit to nearly 7% of GDP and reversed the downward trajectory of public debt, helped maintain robust growth during a difficult period. Now that the recovery seems on track, it is time to pay the piper and rein in the budget deficit.

Deficit reduction poses a big challenge but also provides an opportunity to reorder spending priorities in a way that will support future growth. Indeed, there is much at stake in Finance Minister Pranab Mukherjee's budget speech this week as it will set the tone not just for the fiscal picture but also the contours of India's growth.

General government debt now stands at 82% of GDP according to International Monetary Fund estimates, up three percentage points from two years ago. High levels of deficits and debt increase the vulnerability of public finances. The first order of business is clearly to bring the deficit down to a more moderate level and to put public debt back on a downward path. There are a few steps that will help attain these goals and also serve to make progress towards longer-term objectives.

On the expenditure side, there are a number of inefficient subsidies that cost a lot of money and do not serve their intended purpose. For instance, fuel subsidies ostensibly help the poor but most of the benefits in fact go to middle- and high-income households. These subsidies are costly and perpetuate a high level of dependence on fuel imports. It would be far better, as a government commission recently recommended, to cut these subsidies and replace these and other subsidies with direct cash transfers to poor households. Overly generous sops to public-sector employees also need to be reined in.

There are some important changes overdue on the revenue side, too. Introduction of a goods and services tax, a far more efficient form of taxation than the present central state tax and a hodgepodge of other levies, would in fact raise revenues even if tax rates were kept at low levels. By making the tax system more transparent, it could also reduce opportunities for corruption by public officials.

Such steps are necessary to create room for the government to meet the real priorities for its expenditures, including direly needed spending on education, health care and most important of all, infrastructure. While the government must play an important role in catalyzing progress in these areas, an equally important objective is to unleash the power of the private sector rather than just counting on government to solve all problems.

On this front, the budget speech will be scanned carefully for signs of the government's intentions. And here again there are opportunities to attain multiple goals with some steps, many of which the government had earlier indicated support for but that were set aside in the midst of fending off the crisis.

Reducing government stakes in public-sector enterprises through a process of disinvestment will help pay down some of the accumulated public debt and create space for other expenditure priorities. The government has already identified public-sector enterprises that are ripe for disinvestment, could benefit from private management and for which there is demand from private sector investors. It is important to get a fair price for these assets but populist politics should not be permitted to thwart these actions that are in the broader public interest.

Development of broader financial markets has to be promoted to finance the infrastructure India needs.

Mr. Mukherjee may also signal wider reforms. One key area to watch is financial services, which will be crucial to sustaining and deepening future growth. The Indian banking system held up remarkably well during the global financial crisis but is near the limits of its capacity to manage the financing needs of India's corporate sector. Selling government stakes in many of the public-sector banks and freeing up banks from strictures to buy government bonds and make development loans would improve banking system efficiency and the availability of funding for enterprises.

Development of broader financial markets, especially corporate bond markets, has to be actively promoted if India is to finance the physical infrastructure it desperately needs. Rather than trying to clamp down on inflows of foreign capital attracted by India's growth potential, these should be welcomed and steps taken to move forward quickly with bond market development to absorb and effectively use these inflows.

The measures in this year's budget will be about far more than just mundane matters such as taxes and government expenditures. They have the potential to determine India's growth prospects for many years to come.

Mr. Prasad is a professor of economics at Cornell University and a senior fellow at the Brookings Institution.

IN DEPTH

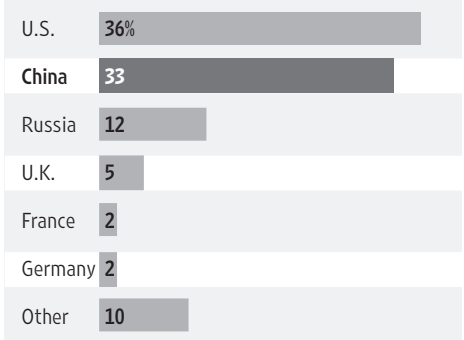
'Panda' offers inside look at cybercrime

(Top to bottom) Imaginechina/ZUMA Press; James T. Areddy/The Wall Street Journal

The Panda Burns Incense computer worm wreaked havoc in China; left, Lei Lei spent a year in jail for charges stemming from the Panda attack.

Hacker havens

Nations in survey deemed to be of 'most concern' as source of cyberattacks



Note: Vanson Bourne survey of 600 IT executives in 14 countries, September 2009.

Source: Center for Strategic and International Studies

Continued from first page

software from the Internet that in turn allowed Mr. Li's computers to siphon off financial information stored deep inside it.

Cyber experts say hacker forums are very likely fertile recruiting grounds for the Chinese government, which is increasingly anxious about its own cybersecurity. In fact, one person formerly involved in spreading the Panda virus says he was later hired to work with Chinese police to break into accounts of Internet users. That couldn't be independently verified.

China rejects as nonsense that it is a hacker haven. "The government has never supported or been involved in cyber attacks, and it will never do so," Peng Bo, an official with the State Council Information Office's Internet Bureau, told state media in mid-February. "In fact, China is the country worst hit by world-wide hackers."

Investigators probing the Google matter still don't know where it began but have been examining whether computers at China's Shanghai Jiaotong University and Lanxiang Vocational School in Shandong Province were involved in the attacks, according to a person briefed on the matter. The New York Times reported Thursday that the attacks have been traced to computers at the two schools.

Mr. Li was released from prison in December after serving three years of a four-year term for destruction of property related to hacking. He declined a formal interview, but in a series of brief phone calls, online chats and email messages, he said he is looking for a "fresh start," perhaps as a cybersecurity specialist, a so-called "white hat." After his release from jail, Mr. Li spent a few days at his parent's red tiled three-floor house outside Wuhan. He has crisscrossed the country with his Acer laptop to visit others involved in the Panda attack. Mr. Li says he's interested in working with former co-conspirators on legitimate businesses.

Mr. Li's hacking career began in May 1999, a month before his 17th birthday, when U.S. warplanes bombed China's embassy in Belgrade. Angered by the strike, Mr. Li, who was hanging out at cybercafes in Wuhan, stopped playing computer games to become a hacker.

Mr. Li took lessons from a childhood acquaintance named Lei Lei. He learned how to control thousands of computers as zombie-slaves, or "chickens" in Chinese slang, to attack Websites, Mr. Lei said in an interview. While students in Beijing pelted the U.S. Embassy with rocks, the two skinny teenagers, from the second floor of a dimly lit Wuhan cybercafe called the "Network Club," waged their own "U.S. hacker war," disrupting 20 or 30 U.S. Websites, according to Mr. Lei. "We were too young at the time, doing wild things," Mr. Li said by email.

Over the next few years, the two hacked as teammates, stealing money from Internet users, Mr. Lei recalls. They downloaded simple attack programs found on the Internet to break into gaming accounts to steal and then sell virtual-money credits used by players. To advance in their games, players buy special weapons and other items, which are tradeable for cash.

Mr. Lei, 27, spent a year in the same jail as Mr. Li in Hubei province on similar charges for the Panda attack and was released in 2008. Today he works for his father's manufacturing firm in Wuhan and plans to open an Internet security business. A fan of American hip-hop music, he still flouts authority, steering his luxury Toyota the wrong way down Wuhan streets during an interview to avoid traffic.

The two hackers say they sharpened their skills as part of an online hacker alliance that took its name from a Qing Dynasty insurgency group, the Small Swords Society. Mr. Li adopted the online moniker WHboy, for Wuhan.

In general, Chinese hackers don't fit the Hollywood stereotype of geeky loner-geniuses in American basements or steely smooth Russian mobsters who design and execute hits, reaping all the benefits, cybersecurity experts say. On the contrary, China's hacker community is a widely dispersed, fragmented chain of digital craftsmen. In Chinese, hackers are known as "heike," or black guests.

"As for Chinese hackers, their overall technological skill isn't as good as American or Russian hackers," Mr. Li said in an email, answering questions from The Wall Street Journal. "However, China has the biggest population of hackers in the world." Noting his own communication with foreign hackers, he added, "I often downloaded hacker software from their sites to compare them with programs I wrote or other Chinese hackers wrote."

In China's hacking community, each person does a specific job and, rather than working for a big score, gets paid piecemeal by selling his work, cybersecurity experts say. The programmer of malicious programs usually assembles his program, as Mr. Li did, with lines of computer code he bought elsewhere. The operation works like an assembly line: The programmer then makes customers of others who pay to undertake the broader attack, spreading the malicious software, triggering it and sharing the payoff.

"The chain business is uniquely Chinese," says a Chinese security expert for a major U.S. technology company in Shanghai. Hacker conspiracies in China are structured like multilevel sales networks and even pyramid schemes, he said, not tight-knit criminal gangs that write "technically clean" code designed from the ground up.

Like most Chinese hackers, Mr. Li says he was nurtured inside the informal but active network of online chat rooms where technology break-ins are plotted. According to hackers and Internet security people, such forums are little more than criminal training schools and hardware stores, a cyber underworld where the locks on technological secrets that power online games, bank Websites and **Apple** Inc.'s iPhone undergo brutal stress tests from the world's largest Internet population.

To sidestep laws against selling malicious software, programmers euphemistically advertise their hacks as "training" and "tutoring," hackers say. Would-be distributors tout themselves as "mail senders," while "script kiddies," keen to build an underworld reputation, will buy hacker tools and pull the trigger.

Anyone along the chain can tweak a virus, for instance, so it attacks another target or trolls for different data. The bounty, benignly called "envelopes," is for sale too: source codes to mimic existing Web sites sell priced at 50 yuan, about $7, and data from their users go for 500 yuan. Forum owners and participants mask their identities. The chief barrier to participation is the Chinese language.

Hacker "crowd sourcing"—when large numbers of people contribute to writing code and executing it—reduces the risks individuals face and leaves the network intact if someone does get caught or a forum is shut, Internet security experts say.

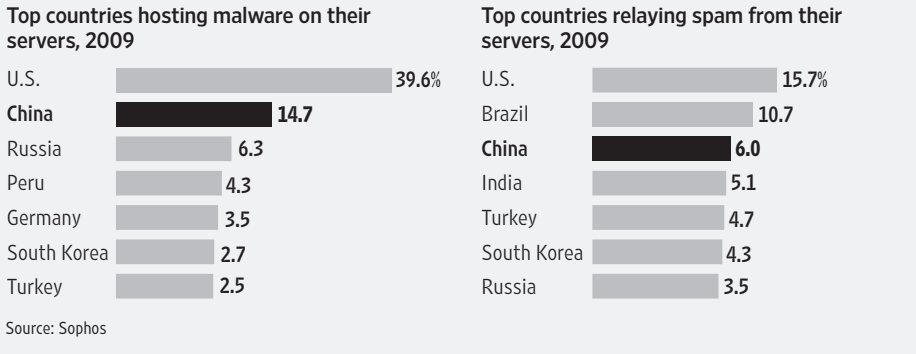
By October 2006, looking to filch from several types of online accounts at once, Mr. Li turned to these forums, hoping to steal enough money to buy a Land Rover, he recalled in an email sent to The Wall Street Journal.

Using a **Dell** computer in a rented apartment in central Wuhan, Mr. Li designed his panda worm, now formally known as W32.Fujacks, to deliver a package of software to Internet users that would steal virtual-money credits and other items from 10

IN DEPTH

Hot zone

China was one of the top countries from which malicious software and spam spread in 2009.



Source: Sophos

different sources like online game sites. The software exploited poorly protected firewalls to infect virtually any computer connected to the Internet.

Mr. Li fished these hacker forums for usable lines of code, settling on script for a worm called Nimaya. For feedback, in the hacker equivalent of a professional peer review, he dropped samples of his own work into bulletin boards like delphibbs.com, according to Mr. Lei. Hacking "can't have made such fast progress and be here today without innovation, sharing and exchanging of technologies," Mr. Li said by email.

Weeks later, Mr. Li branded his tens of thousands of lines of code with an icon stolen from a chatting Web site called QQ: a black-and-white panda gripping three incense sticks. He offered the tool that siphoned money out of sites for sale, initially tapping 10 distributors whom he charged about $120 each.

With "astonishing frequency," according to Symantec, the panda replicated itself by the millions. For some recipients, it was a reminder of a bug dubbed "ILOVEYOU" that had spread from the Philippines six years earlier. But the panda added a malicious feature: hackers could deploy its "backdoor" to grab virtual money from popular online games, including those run by Tencent Inc. A spokeswoman for Tencent said many companies were affected and declined to comment on the Panda case.

Mr. Lei recalls the two spent every waking moment trying to resell their virtual trove. They fenced it at 10% discounts to face value to online buyers, "like on Ebay," Mr. Lei said. How much the scam brought in isn't known, but Mr. Lei says they could earn $1,200 some days. They partied and Mr. Li bought a $2,000 computer but otherwise Mr. Lei says they didn't spend their winnings much.

Soon Chinese Internet users, including government agencies, were decrying the "poisonous panda." Modified or copycat versions of the panda started doing other kinds of damage: turning screens blue, slowing computer speeds, crashing systems and erasing programs.

By early 2007, the two realized the Panda was "out of control" and set plans to flee to western China. By then, police had tracked the Panda to the $72-per-month apartment in Wuhan rented by Messrs. Li and Lei. Only Mr. Li was home when they swooped in on Feb. 3.

Mr. Li appeared in court handcuffed with a newly shaved head and was convicted of destroying property and stealing $18,000.

Mr. Lei was caught later. Police arrested others in Zhejiang, Yunnan and Shandong provinces for their involvement in the Panda attack, some of whom were jailed as well. Many others were never identified, including people who spurred the Panda's spread and profited from it.

As Mr. Li began his four-year sentence, state media pictured him behind bars in a yellow jumper using a prison computer to exterminate his panda virus. (It didn't work. Last November, **McAfee** Inc., the Internet security firm, warned fresh strains of the panda bug were spreading.)

In December, Mr. Li was released early for good behavior. His first call was to Mr. Lei.

To his fast-expanding 17,000 following on a Twitter-like service, Mr. Li issued a cryptic message about what he planned for the future: "Bread will come. Milk will come. Everything can be restarted all over again."

China's hacker community is a widely dispersed, fragmented chain of digital craftsmen. Each person does a specific job and, rather than working for a big score, gets paid piecemeal by selling his work, cybersecurity experts say.

Google probe studies role of Chinese schools

By Jessica E. Vascellaro And Ben Worthen

As investigators study whether Chinese schools played a role in attacks on Google and other U.S. companies, they may face a new challenge: the need for cooperation in China.

The attacks, which came to light in January, affected Google and more than 20 other U.S. companies. In the latest development, investigators have been examining links between the attacks and computers at educational institutions in that country, according to people briefed on the matter.

Several people familiar with the probe caution that the origins of the highly sophisticated series of attacks are still unknown and that investigators are still pursuing a number of theories. Even if computers at the schools were involved, security professionals point out, they may have been used as intermediaries for attacks that began elsewhere.

But there is a growing consensus that it will be difficult, if not impossible to confirm the involvement of the schools or track the attackers further through that connection without the cooperation of institutions in China—and thus the Chinese government. Security experts doubt authorities there would compel a university to turn over information.

In order to determine whether computers at the universities were used in the attack—in addition to who used the computers, and whether they were accessed by a hacker located somewhere else—investigators would need to analyze computer logs and traffic on the schools' data networks, security experts say.

"It's going to be really hard to get the Chinese to give you a full honest report," says Robert Rodriguez, a former secret service agent who now heads the Security Innovation Network, which aims to improve collaboration between the public and private sectors on security issues. Even if China does cooperate "we are not going to have the opportunity to verify" the information, he says.

Without cooperation from Chinese officials, U.S. intelligence agencies would only be able to use clandestine means to learn more. And even these methods could come up short. "It's not like you can fly the U2s over Cuba and say here are the pictures of the missiles," says Daniel Castro, an analyst with the Information Technology and Innovation Foundation, a Washington, D.C., think tank.

The origins of the online attacks on Google and other U.S. companies remain unknown.

Associated Press

Law enforcement and intelligence officials are investigating links between the attacks and China's Shanghai Jiaotong University and the Lanxiang Vocational School, according to a person familiar with the investigation. The development was reported earlier by the New York Times.

Chinese authorities have denied involvement in the attacks. Calls to Shanghai Jiaotong University for comment were not answered. At Lanxiang Vocational School a woman answering the phone declined to comment. An email to the Chinese Embassy in Washington D.C. was not returned.

The attacks—and the mystery around them—have created a political tempest. While disclosing the attack, Google said it would stop censoring its search results in the country in response. But first, the company said it wanted to discuss the matter with Chinese authorities on the off chance that it would be allowed to operate an unfiltered search engine, which would violate Chinese law.

Those discussions have been moving slowly, according to people familiar with the matter, but Google executives have repeatedly stressed that they are hopeful that they will be able to keep some operations in China.

The investigation has been underway since December, when Google first noticed that its computer systems had been compromised.

The company said it had traced the attack back to China but didn't elaborate. The company has been working with law enforcement agencies and the National Security Agency.

In the first phase of the probe, investigators found electronic evidence tracing the attacks to servers in Taiwan, according to people familiar with the matter.

But following the trail beyond that has proved tricky, in part because some of the servers believed to be used in the attacks are no longer active, according to these people.

—Siobhan Gorman and Sue Feng contributed to this article.

PRODUCERS

A Future for Fusion?

Supporters say it isn't a question of if, but when

By Leia Parker

It's a tall order, but scientists at an English industrial complex near Oxford are attempting to develop an energy source that replicates the sun.

The problem isn't whether fusion can work: It does. Scientists have successfully released energy from light atoms by fusing their nuclei together. The special reactor at the Culham Centre for Fusion Energy in England holds the world record for most fusion power produced.

The problem is turning fusion into a viable large-scale energy source—one that is economical, clean and safe. That is still somewhere over the horizon. After decades of research and billions of dollars in public financing, no fusion experiment yet has been able to generate more energy than it consumed in the process.

Question of Cost

Britain's Green Party, for one, doesn't rule out "big-stick" solutions like fusion power as potential energy sources in the future. But the party would rather see the U.K. government investing in renewable energy sources that work already, says James Abbott, the party's science and technology spokesman. "Our main concern [with fusion] is it's obviously an expensive and highly specialized form of energy production, and it's still at an experimental stage," he says.

Fusion's supporters, however, include the governments of the European Union, U.S. and China, and they are funding fusion research at a rate of roughly $1 billion a year in total.

The world's leading magnetic-confinement fusion project is at Culham, where scientists are, not surprisingly, optimistic. "Once we know how to do fusion, which ultimately we will, it will clearly dominate energy production," says Steven Cowley, director of the Culham Centre for Fusion Energy and chief executive officer of the U.K. Atomic Energy Authority.

Experimental fusion reactors release energy from light atoms by fusing their nuclei together to form heavier ones—as opposed to splitting atoms, the way today's commercial nuclear power stations do.

Safer Alternative

Thus, fusion is a safer alternative to today's nuclear power plants, Mr. Cowley says. The reaction only generates helium, an inert gas, as a byproduct. The walls that capture the heat of the reaction periodically need replacing, but they can be disposed of as low-level radioactive waste or recycled in fusion reactors, he says.

Scientists at Culham are preparing for an experiment in 2013 in which they hope to break their own record of 16 megawatts of fusion power. The doughnut-shaped reactor at Culham, known as the Joint European Torus, or JET, can take an amount of fuel about equal in mass to a postage stamp and heat it to more than 100 million degrees Celsius—hotter than the sun.

This creates plasma, which in turn releases energy. Eventually, scientists hope to create enough energy, and at sustained levels, to produce electricity using steam-driven generators.

Fusion power plants would fuel the reactions with deuterium, which is found in seawater, and tritium, which is bred in the reactors from lithium, an element found in brines.

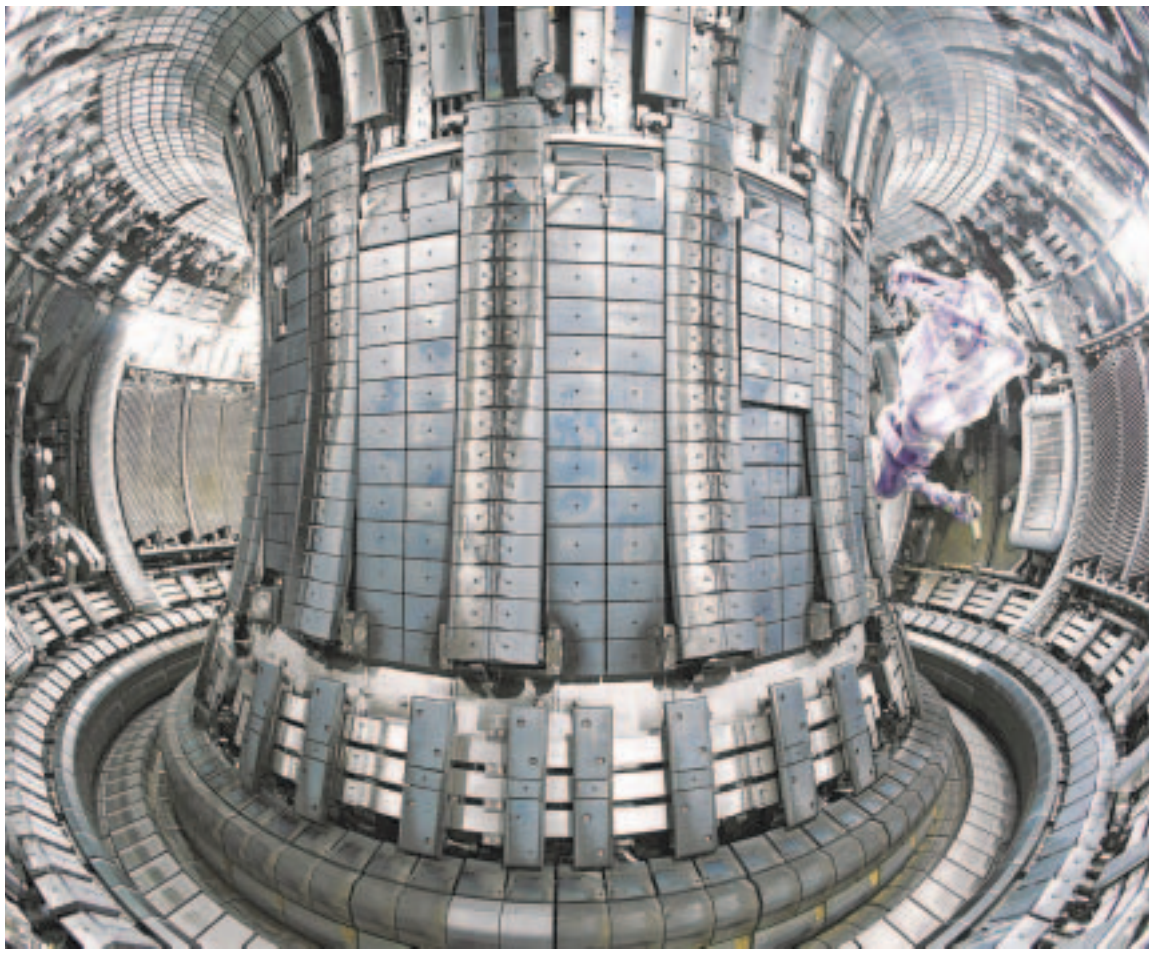
Meanwhile, a much larger project, capable of producing far more power than JET, is under construction in Cadarache, France.

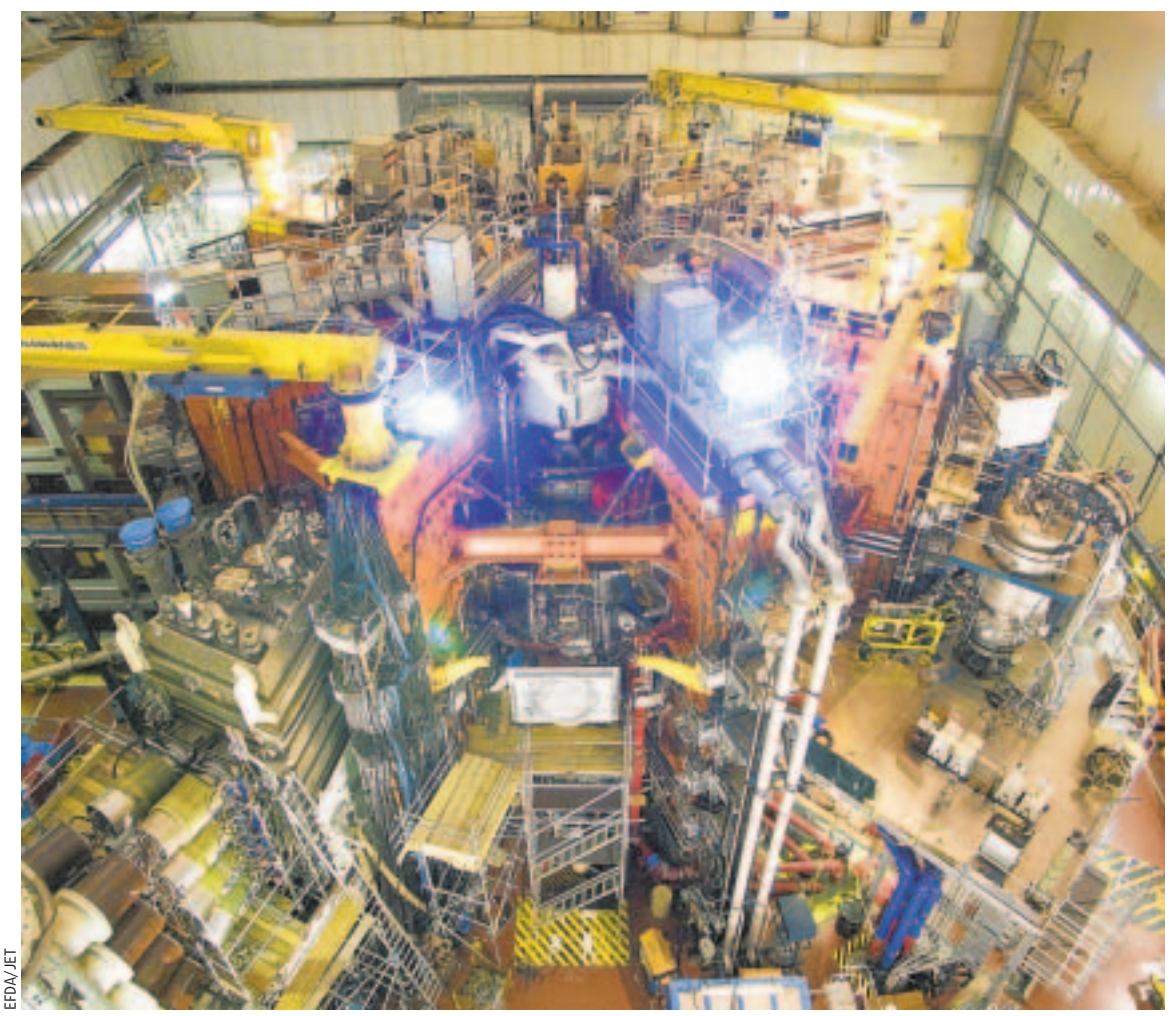
Experiments at the International Thermonuclear Experimental Reactor—to be housed in a building 19 stories tall with five more stories below ground—are scheduled to begin in 2018. ITER is expected to cost tens of billions of dollars, funded by the governments of the European Union, India, Japan, China, Russia, South Korea and the U.S.

These governments are issuing ITER contracts to businesses in their own countries. They want the project to broadly stimulate high-technology industries around the world, says Neil Calder, the project's communications head. The majority of contracts will be signed in the next four to five years, he says.

The initial goal for ITER is to generate some 500 megawatts of power for extended periods, enough in theory for roughly 500,000 homes.

But more important, ITER hopes to achieve the breakthrough that so far has eluded fusion researchers: a reaction that generates more power than it consumes. And if that succeeds, ITER plans a demonstration power plant—capable of producing at least two gigawatts—that could be functioning by 2040, Mr. Calder says.





The heart of the JET reactor in England, where temperatures exceed those of the sun. The picture below shows the JET machine as seen from the top of the Torus Hall.

EFDA/JET

Bigger Bottle

Mr. Cowley says he believes ITER will produce at least 10 times more energy than will be needed to create the reactions. That's because the reactor will be much larger and better insulated than other experimental fusion reactors, which will allow ITER to produce and hold far more energy as heat, he says. "The JET is just smaller than the idea we have for a commercial reactor. If you make a bigger bottle, it's better insulated."

Such optimism isn't deterring fusion's opponents. Dave Martin, policy adviser for Greenpeace Canada, a key player in causing Canada's government in 2003 to withdraw its bid to be host country for ITER, says he thinks it's likely to take 50 years at best to commercialize fusion as a practical power source. He says the exorbitant costs needed to make fusion power viable would be better spent on simpler, proven renewable energy sources such as solar and wind.

He calls fusion power "a misguided, grotesquely expensive engineering boondoggle."

Mr. Cowley concedes that because of the high costs involved, at least two more decades of state sponsorship will be required before fusion can be made part of electricity grids.

Ancillary Businesses

But in the meantime, both ITER and JET are already generating a lot of new scientific and business activity, particularly among small high-tech companies.

ITER's 23,000-ton reactor will require highly heat-resistant materials, coils of superconducting cables, cryogenics to cool the coils, remotely controlled robotics to safely maintain the reactor, and diagnostics to understand the experiments' results.

"ITER is a fountain of different technologies," says Mr. Calder. "The success of ITER depends on the ability to produce materials which will resist the extremely ferocious conditions inside" the reactor, he says.

Corus, a London-based steel producer that is part of India's **Tata Steel** Ltd., is researching how to build a more pure and durable steel, Mr. Cowley says.

Oxford Instruments PLC, a maker of superconducting materials, has developed a new type of wire and braiding for ITER. The English company says it has agreed to supply 67 metric tons of its wire, valued at more than £35 million (about $55 million). The company also supplies superconducting wire for other uses, such as magnetic resonance imaging, says Chief Executive Jonathan Flint.

Mr. Flint sees the ITER work as integral to his business. ITER will increase global demand for superconducting wire 30%, he says. "It's a sea change."

Ms. Parker, based in London, is managing editor for the Dow Jones Newswires EMEA Energy & Commodities teams. She can be reached at **leia.parker@dowjones.com**.

PRODUCERS

Out of the Ashes

A small mining firm has big plans to sell the uranium left over when coal is burned

By David Winning

Sparton Resources Inc., a small Toronto mining company, is betting that a global renaissance in nuclear power will create a market for an unlikely fuel source: waste coal ash.

Natural coal contains trace amounts of uranium, and when it is burned to produce electricity, varying amounts of the radioactive element are left behind in the ash. Sparton has developed a method for recovering it and says a project under way at a coal-fired power station in southwestern China is yielding uranium that could be reused as a fuel for nuclear reactors.

The company is exploring other sites in China, South Africa and in Eastern Europe, where ash was buried when Soviet-era power plants were shut down, to determine whether they have similar potential.

Sparton's efforts come as concerns about climate change thrust nuclear power back into the spotlight as a way to reduce carbon-dioxide emissions. Some analysts and mining companies are predicting a supply shortage of uranium within four to eight years if, as expected, China and other Asian nations accelerate programs to build nuclear reactors and European nations such as Sweden abandon their moratoriums on new nuclear plants.

Extracting uranium from coal deposits isn't new: Union Carbide Corp. and Kerr McGee Corp. did it in the 1960s, selling what they produced to the U.S. Atomic Energy Commission. But interest in these and other secondary uranium-recovery techniques often hinges on the benchmark price for U3O8, a common compound of uranium.

Mr. Winning is a news editor for Dow Jones Newswires in Sydney. He can be reached at **david.winning@dowjones.com.**

The spot uranium price surged to a record $138 a pound in 2007, the year Sparton announced plans to test and possibly commercialize uranium recovery at a coal-fired power station in China's Yunnan province. Since then, the spot price has plunged to about $42 a pound amid the global economic slump, though it remains far above its early 2001 level of approximately $7. Long-term contract prices, which make up the majority of uranium sales, are holding at about $61 a pound.

Sparton says its Yunnan project is producing uranium at a cost that would appear to be economically competitive, but some analysts say the recent pullback in uranium prices could limit the technology's appeal, at least for now.

"Any nontraditional form of uranium production can and will only compete if the production costs are equal to or lower than traditional U3O8 mining and milling methods," says Jonathan Hinze, vice-president of international operations at Roswell, Ga.-based Ux Consulting Co.

Coal-fired power stations produce more than 700 million tons of ash and other waste matter annually, with much of it stockpiled or disposed of in landfills. In China, more than 2.7 billion tons of ash sit unused, according to a presentation delivered in May in the U.S. by experts at the East China University of Science and Technology.

Not all waste ash is suitable for uranium recovery. Coal needs a uranium content of at least 50 parts per million to be comparable to a low-grade uranium deposit, says Robert Finkelman, a research scientist at the University of Texas at Dallas. In the U.S., the average coal deposit has only about two parts per million. In addition, some coal-fired plants inject lime into burners to control sulfur emissions. That can leave large amounts of excess lime or calcium carbonate in the ash, which makes it harder and more expensive to get at the uranium.

Sparton believes that its Yunnan project, in which it has invested more than $5 million, can overcome these and other challenges.

Three power plants located near its site are burning coal with a uranium content averaging 65 parts per million, and the lime content in the leftover ash is low, Sparton says.

The company is recovering the uranium at a cost of $20 to $35 a pound, says A. Lee Barker, Sparton's president and chief executive officer, making the project economically competitive at the current spot uranium price of about $42 a pound.

The company has been able to hold down capital costs. That's partly because the coal feeding the plants comes from an existing mine, so it doesn't have to build one.

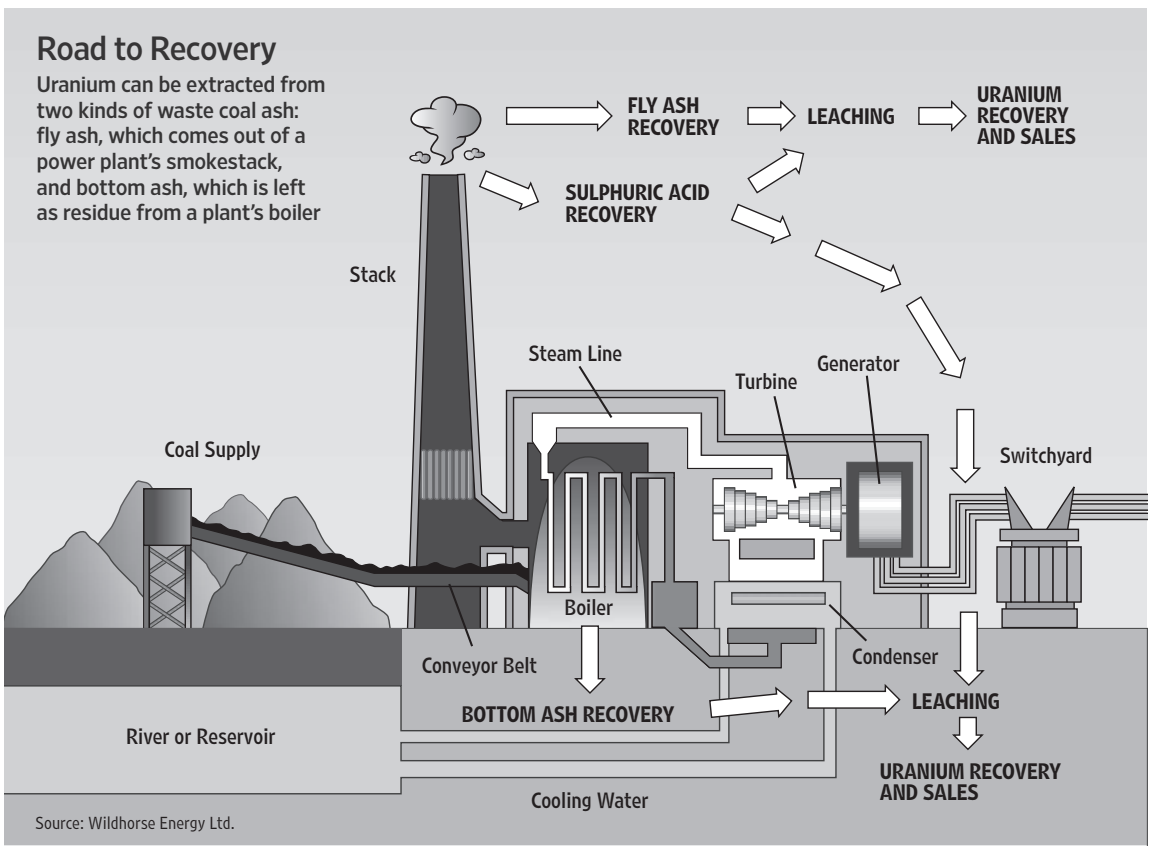
To produce uranium at the site, Sparton puts the ash in acid in order to dissolve, and then extract, the uranium. Sparton says it can recover 70% of the uranium in the ash at Yunnan using this method.

Then there are the environmental benefits. Sparton says uranium-extraction facilities like the one at Yunnan could help clean up ash piles that have been classified as hazardous because of their high uranium content. The material left over would then be suitable for use in cement or as a filler for concrete blocks, it says.

Conventional uranium mining in China, which plans to increase its nuclear capacity at least fourfold by 2020, is closed to foreign companies. Focusing on waste ash has enabled Sparton to overcome this hurdle, as has its choice of joint-venture partner—state-owned **China National Nuclear** Corp., the country's top nuclear power developer by capacity.

Mr. Barker says Sparton could be producing up to two million pounds of uranium in China annually after three years, enough to fuel a new reactor. That forecast reflects the waste-coal-ash project in Yunnan and other secondary recovery activities in which Sparton is involved.

Some mining companies—Australia's **PacMag Metals** Ltd. and closely held NuCoal Energy Corp. of Saskatchewan, Canada, for example—are looking into whether they can improve the economics of coal-related uranium-recovery projects by extracting other valuable metals at the same time. ▦



POWER PLAYS

Juice for Electric Cars And Scooters

Alternative-energy deal news from Dow Jones Clean Technology Insight

Fuel Injection

Investors, including the U.S. government, are placing their bets in the race to develop electric vehicles.

In recent weeks, **Fisker Automotive** Inc., of Irvine, Calif., raised $115.3 million in a round of equity financing that could reach $150 million. Fisker needs the funds to close on a $529 million low-cost loan from the U.S. Department of Energy. **Coda Automotive** Inc. of Santa Monica, Calif., meanwhile, raised $25 million as part of a new round of capital.

Fisker says the public and private money will allow the company to fully fund production of a luxury plug-in hybrid electric car, the Karma, and support the engineering and manufacturing of a family car, a plug-in hybrid slated for 2012.

The firms participating in Fisker's latest financing round were **Kleiner Perkins Caufield & Byers**, lithium-ion battery technology developer **A123 Systems** Inc. and **Ace Investments**, a Hong Kong investment firm associated with Richard Li, the chairman and executive director of **PCCW** Ltd., the Hong Kong-based telecommunications company.

Fisker's long-term business plan calls for an additional $50 million in equity funding annually. The company expects to reach profitability in 2011, the first full year of production of the Karma, says Ray Lane, a partner at Kleiner Perkins.

Coda Automotive, meanwhile, is aiming to be the first company with an all-electric five-passenger vehicle on the market when it rolls out its car, the Coda, this fall.

The company brought in Swiss firm **Aeris Capital** AG as a new investor in the latest round of financing, a Series C. Coda expects to cap the round at $55 million, according to Chief Financial Officer Dan Mosher.

Other investors in the firm include Miles Rubin, co-chairman and founder of **Miles Electric Vehicles**; Los Angeles-based private-equity firm **Angeleno Group**; and Steven "Mac" Heller, a retired investment banker who spent 20 years at **Goldman Sachs** and is co-chairman of Coda, an offshoot of Miles Electric Vehicles.

Investors may be enthusiastic, but consumer interest in these vehicles will be tested by high price tags. Fisker's Karma will sell for at least $87,900, while the family car that the company is planning will retail for around $48,000 before consumer tax incentives. The Coda will sell for $45,000.

Pedal Power

The high cost of electric vehicles has some investors focusing instead on a cheaper alternative: electric scooters, which are widely used in the developing world.

Zhejiang Zhongtai Vehicle Manufacturer Co., a light vehicle and scooter manufacturer based in Wuyi, China, recently raised 60 million yuan (about $8.8 million) from **Cybernaut (China) Investment**, a Chinese venture-capital firm.

Min Li, a Hong Kong-based analyst with **Yuanta Securities** (Hong Kong) Ltd., believes that sales of electric scooters and bikes may be a key to tackling emissions problems in China's populous and poorer second- and third-tier cities.

"It's a segment that's growing much faster than other electric vehicles," Mr. Li says. ▦

By **Mara Lemos Stein**, **Jonathan Shieber** and **Sari Krieger**, reporters for Dow Jones Clean Technology Insight, a publication based in New York. They can be reached at **mara.lemos-stein@dowjones.com**, **jonathan.shieber@dowjones.com** and **sari.krieger@dowjones.com.**

PRODUCERS

Where Batteries Go To Be Tortured

If something can go wrong with lithium-ion cells, better in the 'abuse lab' than in your car

By Stephanie Simon

ALBUQUERQUE, N.M.—It's known as the "abuse lab."

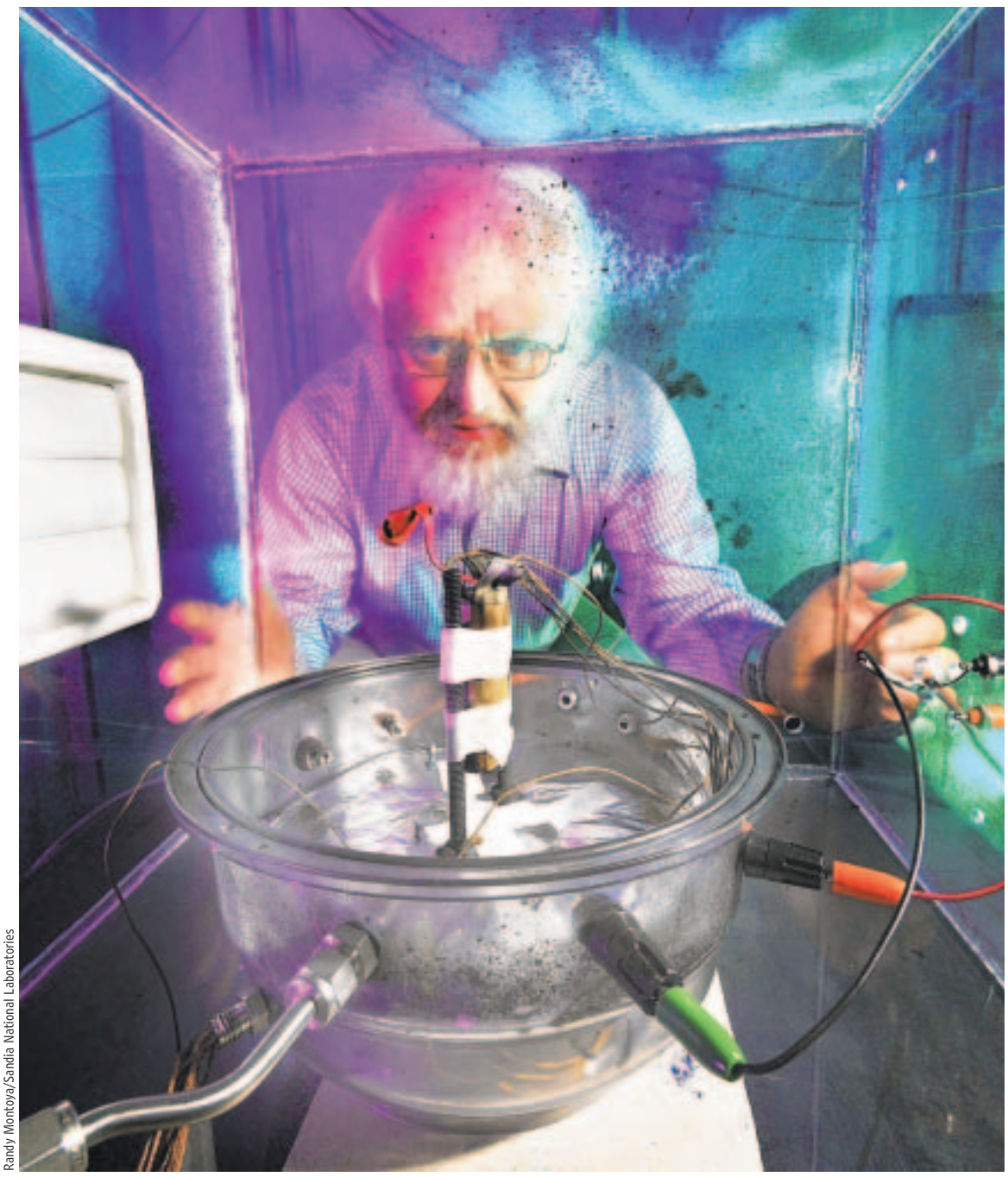
And with good reason.

Behind a 2,000-pound (746-kilo) blast door, researcher Peter Roth spends his days torturing electric-car batteries. He overcharges them, drives nails into them, presses them between scalding brass plates. He dunks them in salt water, sets them on fire, crushes them, drops them, dissects them. Again and again, he watches them explode.

The goal: To make sure all this mayhem happens in his lab—and not in your car. Because, as Mr. Roth says dryly, "One bad incident can spoil the public's opinion."

Electric cars are about to hit the market en masse: General Motors Co. plans to launch its Chevrolet Volt this fall; Nissan Motor Co.'s Leaf is slated to debut by December; and new gas-electric hybrids are in the works at Toyota Motor Corp., Honda Motor Co. and Volkswagen AG's Audi unit. Even BMW AG has an electric compact in the works. Nearly all are powered by lithium-ion batteries, which pack six times the punch of a standard lead acid car battery and more than twice as much as the nickel-metal-hydride batteries used in hybrids such as the Toyota Prius.

Lithium-ion batteries have been around for years in cellphones, laptops and other consumer electronics. Even on this small scale, the batteries have caused sporadic trouble; several computers have been recalled in recent years after their lithium-ion batteries were found to spontaneously catch fire. Scaling up the technology enough to power a car raises fresh safety and reliability questions.



Randy Montoya/Sandia National Laboratories

Sandia National Laboratories

Sandia researcher Peter Roth prepares to blow up a battery in the abuse lab to see how robust it is. And at left, a lithium-ion battery burns after exploding during a test in the lab.

Shoestring Operation

That's where Mr. Roth comes in. In a windowless warren of small test bays—several singed with the soot from past explosions—Mr. Roth seeks to discover what can go wrong with different types of lithium-ion cells, and under what conditions. His guiding principle? "If you build it, it can fail."

The abuse lab is located at Sandia National Laboratories, in a high-security building mostly used for nuclear research; the reception desk displays a small sign instructing couriers: "All explosives go to Room 1107."

Much of Mr. Roth's research is funded by the U.S. Department of Energy, which recently awarded the lab $4.2 million in stimulus money to upgrade equipment. Auto companies and battery makers also pay the lab directly for tests on proprietary technology. "It's our key go-to national lab for abuse tolerance testing," says Ted Miller, a senior manager of energy storage strategy and research at Ford Motor Co.

Mr. Roth's lab for the most part studies lithium-ion batteries—from single cells that can be smaller than a tube of lipstick to full-size automobile battery packs weighing several hundred pounds. Then there are the thin silver pouch batteries, which look fit and trim when they are new but "swell up like a Jiffy-Pop bag when they go bad," Mr. Roth says, pulling out badly charred, misshapen pouches.

He and his research partner, Chris Orendorff, emphasize that they are testing these batteries under worst-case scenarios, often after disabling internal controls. "Then we can develop strategies to mitigate those problems," Mr. Orendorff says. "Knowledge is power."

The lab, whose clients also include the National Aeronautics and Space Administration, the U.S. miliary and consumer-electronics manufacturers, relies on an unlikely mix of sophisticated equipment and home-made contraptions for research.

The scientists use a state-of-the-art accelerating rate calorimeter to measure the heat generated by various types of batteries when they begin to overheat and a Fourier transform infrared spectrometer, which can cost about $50,000, to analyze the gases released as a battery breaks down after a catastrophic failure. Thanks to U.S. government stimulus funds, the lab will soon get a CT scanner, for peering inside single cells, and a thermal chamber to test how batteries react to extreme temperatures—anything from minus 70 to 200 degrees Celsius.

Yet the researchers rely on an old locomotive relay switch to perform other critical tests, such as the short circuit (a battery is hooked up and the switch is thrown closed, which causes an immediate and intense short circuit). They protect the hydraulic lines on another machine with crumpled tin foil. And their computing center looks like it was built in the 1980s and never updated. "It's a bit of a shoestring operation," Mr. Roth says.

Toxic Grit

With a shock of white hair, an unruly beard and impish eyes, Mr. Roth, 62 years old, looks every bit the mad scientist as he bounds through the lab reminiscing about disasters he has engineered. In one memorable test a few years back that didn't involve lithium-ion technology, he overcharged a battery made of 48 cells lashed together, then exposed it to sparks. The cells immediately began venting a tremendous cloud of gas and then exploded like fireworks, ricocheting off walls and disintegrating so completely, nothing was left but a thick layer of grit so toxic that cleanup crews had to wear hazmat suits.

His report to the manufacturer was simple, Mr. Roth says: "Back to the drawing board."

As for his test bay? "We put in a steel ceiling after that," he says.

Making an Impact

Overcharging is one of Mr. Roth's standard tests. He has repeatedly found failings in the electronic monitors that are supposed to deflect the current when the battery is full. That can cause overheating—known as "thermal runaway"—and explosions.

Armed with this data, battery manufacturers have developed a backup system of mechanical circuit breakers that interrupt the current flow when the battery's temperature begins to climb to unstable levels.

The Sandia lab also compares the safety of various chemistries used for the positive and negative charge in a lithium-ion battery. Much of this information is confidential, but the researchers say that certain materials are clearly superior in terms of safety and that the industry is shifting in that direction.

"They've made a significant contribution to automotive technology," says Menahem Anderman, president of Advanced Automotive Batteries, a consulting firm in Oregon House, Calif.

Mr. Roth's lab has also dispelled some fears. Manufacturers worried, for instance, that if a car plunged off a bridge, its lithium-ion battery might electrify the water and shock first responders. Mr. Roth tested the scenario and dismissed the concern as unfounded.

Mr. Roth, who plans to retire this spring and turn over the lab to Mr. Orendorff, says that in more than a decade studying battery technology he has seen huge advances in safety and has been impressed by the industry's attentiveness to his research.

So does he plan to buy a car powered by a lithium-ion battery? He hesitates. "I will certainly be inclined to buy one eventually," he says. "But I am disinclined to buy the first of anything."

Ms. Simon is a staff reporter in The Wall Street Journal's Dallas bureau. She can be reached at **stephanie.simon@wsj.com**.

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ON OTHER FRONTS

Beauty is fleeting for these portraits

After the bubble, some owners who paid top dollar stash paintings of Greenspan in a closet or under the bed

By Lucette Lagnado

(Top to bottom) Courtesy of Matthew Schirmer; Erin Crowe

In the offices of the **Hennessee Group** hang two oil paintings and two prints, each portraying the bespectacled visage of former Federal Reserve Chairman Alan Greenspan.

"What I should do is make them into a dart board," says Charles Gradante, who with his wife, Lee Hennessee, runs the Fifth Avenue firm that advises investors in hedge funds. "All I see when I look at these paintings are two market crashes, a bear market, and the current economic crisis."

The pictures stay on the wall because of Ms. Hennessee, who remains loyal to the paintings and to the man they portray.

"Wonderful," she says, surveying one canvas. Ms. Hennessee paid $2,500 for the portrait by artist Erin Crowe. She believes the works could grow in value.

The paintings at the center of this husband-and-wife disagreement are artifacts of a bygone era: a time when many Americans thought central bankers were cool, and Mr. Greenspan was the coolest, or perhaps hottest, of them all.

In the years before the 2008 financial crisis, Wall Street and Mr. Greenspan's reputation boomed in tandem, and an obscure young artist, Ms. Crowe, gained notice for her distinctive oil portraits of the Fed chairman, now 83 years old. Working from photographs she found online and in newspapers and magazines, Ms. Crowe produced colorful, whimsical canvasses that highlighted Mr. Greenspan's wrinkled forehead, pursed lips, droopy ears, hand gestures and oversize glasses.

A gallery in the Hamptons that exhibited her paintings in the summer of 2005 sold every one within a couple of days, recalls Sally Breen, who organized the show with Rebecca Cooper. She had a second Greenspan show in downtown Manhattan. Ms. Crowe says she produced upwards of 50 canvasses of Mr. Greenspan. All were snapped up, some for as much as $5,000 to $10,000, she says.

As her popularity grew, Ms. Crowe flew business class to Hong Kong, where she painted portraits of leading financial figures, including Hong Kong's chief executive and the head of its Monetary Authority. She realized that she'd found her niche: painting financial gurus. The future looked dazzling.

She painted one of the portraits on live television when Mr. Greenspan retired. It fetched $150,400 for charity in an online auction.

Now, the man who bought that painting, Tampa Bay-area businessman Matthew Schirmer, says he keeps it under his bed.

Mr. Schirmer says he had high hopes for the painting when he bought it in 2006 with his brother, Nathan. The money they spent went to a worthy cause, autism research. But Mr. Schirmer says he was hoping to raise even more money for a favorite charity, Autism Speaks.

"We thought, let us ride this wave," he recalls. Mr. Schirmer paid to have 100 high-quality prints made of the painting. He flew Ms. Crowe to Florida to sign them. Her painting was placed on an easel in the lobby of a Tampa-area bank Mr. Schirmer helped found. Mr. Schirmer anticipated holding charity fund-raisers with the Greenspan painting as a draw.

"There was no interest," he says. To this day, he hasn't sold any prints, he says, "not a single one." The original painting could still recover some value, he says. "I hate to tell you, but we are kind of waiting for him to pass on."

Mr. Greenspan's office said the former Fed chief "regrets he won't have the time to comment."

Brian McAnaney, a lawyer in Stamford, Conn., bought an early Greenspan painting by Ms. Crowe at a charity auction way back for $300. A friend of the artist's family, he hung the painting in his office, where it remained until he retired. Now he has it hidden away in a closet in his summer house.

"It is a little hard to find a place for Mr. Greenspan in my homes," Mr. McAnaney says. "He is still there, but in a closet, because it is difficult to find a place for him in a family setting."

As for his summer home, located in Kiawah Island, S.C., he rents it out and fears the image of the controversial former Fed chief could "offend" tenants. Mr. Greenspan, he deadpans, "is not on everybody's A-list."

How valuable are these portraits? "I doubt these Greenspan paintings could be resold for what

Above, 'Irrational Exuberance' by Erin Crowe; left, Ms. Crowe, with 'Greenspeak,' worked from photos of Mr. Greenspan.

people paid for them because they are indicative of the times," Mr. McAnaney says. "They were painted in a bubble economy, and Erin's paintings were bubbles."

In Washington, Kevin Dolan, a former senior vice president of Merrill Lynch, bought his painting for $3,000. He decided to donate it to a charity auction that took place on the firm's trading floor in December 2006. It went for nearly double the price, he recalls.

He doesn't believe that would happen now, saying he is relieved that he donated his painting to charity when Mr. Greenspan "was still a god."

Dallas hedge-fund manager David Norcom still has his Greenspan, which he purchased for $3,000 when the Fed chairman's reputation was sterling. "There is not one person who comes to my office that doesn't talk about it," says Mr. Norcom. "When Greenspan was more admired, people walked in, looked at him and made positive comments about him," says Mr. Norcom. These days, the comments are more acerbic.

"It is a conversation starter," says Mr. Norcom. People say: "Man, everyone thought he was hot, but he turned out to be a dog."

Some who shared in the pre-crash exuberance for Greenspans say they don't see a reason to sell now.

"Alan Greenspan at one time was a hero to most of us, and now he is being called a villain," says Lou Guida, of Jupiter, Fla., who bought several Greenspan paintings for about $2,500 to $8,000 each. "Who knows what history will say about Alan Greenspan?" Personally, he doesn't see Mr. Greenspan as a villain, he adds.

Ms. Crowe, now married with a baby and living in London, says she is taking the change in her fortunes in stride.

"I rode those paintings as far as you can imagine, so how can I complain?" she says.

Ms. Crowe hasn't abandoned her niche in the art world, and has now turned her attention to the current Federal Reserve chief, Ben Bernanke.

"It is a fresh face, it didn't have so many wrinkles, it felt baby-like," she says. She hopes to put together a Bernanke show.

But the new Fed chairman's market value can't compare with Mr. Greenspan's at his peak. One patron who had paid Ms. Crowe $10,000 for a Greenspan asked her to paint Mr. Bernanke. But he only wanted to pay her $5,000, she says.

"I thought, 'Yikes,' " Ms. Crowe says. "That is a hefty pay cut."

WSJ.com

See more of Ms. Crowe's paintings at **WSJ.com/US**

A cash squeeze for airlines puts Airbus and Boeing in a bind
CORPORATE NEWS 25

Fed's discount-rate hike should be reassuring
HEARD ON THE STREET 36

BUSINESS & FINANCE.

Monday, February 22, 2010 THE WALL STREET JOURNAL. asia.WSJ.com

Shinsei-Aozora merger faltering

Urgency of the financial crisis has waned, while negotiations have stumbled over strategy and capitalization

By Alison Tudor

TOKYO—The planned merger of two midsize Japanese banks is faltering, in part because the owners and regulators no longer feel the urgency of the financial crisis that forced the proposed marriage in the first place.

But the deal's collapse would leave **Shinsei Bank** Ltd. and **Aozora Bank** Ltd., both backed heavily by U.S. private-equity firms, with challenges as they labor to build sturdy businesses in a competitive market.

"Given their less-stable funding capabilities and weaker business franchises than their larger domestic peers, Aozora Bank and Shinsei Bank may face difficulty maintaining stable earnings amid the challenging business environment," analysts at ratings firm Standard & Poor's said in a recent report.

Bloomberg News

Shinsei Bank's stock has dropped 11% this month, while Aozora shares are flat.

Also, the potential cost savings, which last year were put at roughly $300 million to $400 million annually, according to one person familiar with the situation, would be lost.

Shares in Shinsei have dropped about 11% this month on increasing doubts the merger would go through. Aozora's shares have been flat.

Even though tensions have been brewing for months— and the Japanese media have already reported that the deal has collapsed—the banks say they continue to work toward the merger, valued at $5.9 billion when it was announced.

One reason managers have formally kept the talks alive is because they have been focusing on routine inspections of their loan books by the Japanese financial regulator, knowledgable people said. Once the inspections are over, the merger's future might be readdressed, especially in the face of an October deadline to complete the deal.

When merger talks got under way early 2009, Shinsei needed to shore up its capital and Aozora was facing a liquidity crunch. Combined, the two banks would create Japan's sixth-largest lender, whose bulk would have given it stability and potentially a tacit guarantee from the Japanese government, which is already a major shareholder, with a 23.9% share of Shinsei and about 22% of Aozora, if its preference shares were converted.

Some analysts expect that Shinsei, lacking access to Aozora's healthier balance sheet if the merger were dropped, would have to raise more capital as a buffer against hard times.

Shinsei's chief financial officer, Rahul Gupta, stressed on an earnings conference call Feb. 3 that "we do not have any immediate plans to raise capital." He also said that "clearly there are a number of issues that need to be resolved" in the merger. "It is progressing slowly."

Please turn to page 22

Hong Kong is preparing to be a major yuan player

[The View From Hong Kong]

By Jonathan Cheng

HONG KONG—Last month, **HSBC Holdings** PLC moved its chief executive to Hong Kong with much fanfare. Now, the bank wants to finish the homecoming with a listing in Shanghai, a move that's had some people in Hong Kong worried.

"Shanghai, along with Hong Kong, is the birthplace of HSBC," says Gareth Hewett, a bank spokesman. "HSBC is keen to be among the first foreign firms to list on the Shanghai exchange. We are ready for when the authorities would like to do it, but it is their decision.

If successful, London-based HSBC—founded in 1865 as The Hongkong and Shanghai Banking Corp. Ltd. and a mainstay of Hong Kong's benchmark stock index—could be the first international company to list on China's domestic stock market, but it certainly wouldn't be the last.

A parade of other big names, from Hong Kong-listed "red chip" **China Mobile** Ltd. and **Bank of East Asia**, also in Hong Kong, to exchange operators **Nasdaq OMX Group** Inc. and **NYSE Euronext** Inc., which don't have Hong Kong listings, have expressed interest in listing on Shanghai's stock exchange, which is currently open only to domestic investors and a tightly regulated clutch of foreign institutions.

All this has heightened the sense of urgency among stock-exchange and government officials in Hong Kong, which has staked its prosperity on serving as a middleman between China and the rest of the world.

Last month, Hong Kong's stock exchange claimed a coup by luring Russian aluminum giant UC **Rusal**. Despite Rusal's lackluster market performance, the specter of a Shanghai international board raises a question: Where will the next big overseas company looking to tap Chinese investors choose to list?

To be sure, the Shanghai venue where HSBC wants to list, the planned "international board," has been beset with delays. Mainland officials are dealing with a wide range of issues that could hold up progress for several more months.

Publicly, officials from the two sides insist there is nothing but friendliness between Hong Kong and Shanghai, citing a giant Chinese market with plenty of room for synergies.

Behind the scenes, though, as Shanghai officials move forward with ambitions to become a global

Please turn to page 29

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United Nations Joint Staff Pension Fund	LF Göteborg & Bohuslän	Svenska Kyrkan (Church of Sweden)
AP2 – Second Swedish National Pension Fund	LF Liv	United Nations Joint Staff Pension Fund
AP3 – Third Swedish National Pension Fund	LF Norrbotten	Zürcher Kantonalbank
California State Teachers' Retirement System	LF Västernorrland	Adlerbert Research Foundation
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Investors bet against a contagion

Central and Eastern European markets have been the biggest beneficiaries as investors embrace riskier assets

By Dave Kansas

Despite worries that the fiscal problems in Greece and other European countries will grow and spread, some investors have reacted by buying up what appear to be risky assets and shunning more-conservative investments.

The biggest beneficiaries of the shift have been Central and Eastern European markets, though the strategy extends to other emerging markets. The argument is that Greece will have little impact on global economic growth but it might force central bankers to keep interest rates low, making these investments attractive.

ABREAST OF THE MARKET

Stock movements since the start of the year illustrate the divergence. Core euro-zone markets such as France and Germany are down about 4%, while the markets in the Czech Republic, up 3%, and Turkey, up 1%, have gained ground. The DJ Euro Stoxx 50, which encompasses the euro-zone, is down 5.8% since the start of the year, while the pan-European DJ Stoxx 600 is down a relatively lighter 1.1%.

Overall, developed markets got off to a better start than emerging markets this year, but the gap has narrowed quickly as the situation in Greece intensified. Brazil is off 1.4% this year, but up 3.4% so far in February. Commodities, another classic higher-risk play, have also jumped. Oil is up 12% in two weeks and copper gained 9% last week, its best one-week gain since July.

Bloomberg News

The Prague Stock Exchange is among the beneficiaries of a new sentiment.

While the travails of Greece will likely keep its economy struggling for years, the country accounts for just 0.2% of the global economy, based on gross domestic product. Even if other fiscally troubled countries such as Portugal, Spain and Ireland post weak growth, the bigger impact will be to prevent central bankers from raising rates.

The European Central Bank and Federal Reserve are now expected to keep rates as they are until much later in the year. The Bank of Japan is under pressure from the government to make its easy monetary policy even easier. Concerns about sovereign-debt risk were among the reasons that central banks such as the Reserve Bank of Australia and the South Korean central bank are dialing back expectations of rate increases.

"The Greek issues are delaying when the cheap money will be withdrawn," says Hasan Tevfil, a strategist at Citigroup Global Markets.

Maintaining means low-risk assets, such as highly rated government bonds, will have weak returns, driving investors to hunt for higher rewards elsewhere.

That kind of environment will naturally drive more investment dollars toward emerging markets, where growth rates are higher, but so is the risk.

Mr. Tevfil notes that among emerging markets, the so-called CEEMEA—Central and Eastern Europe Middle East and Africa—is the cheapest, trading at nine times 2010 earnings.

Latin America and Emerging Asia both trade at 13 times 2010 earnings. Within CEEMEA, Turkey (nine times 2010 earnings), Russia (eight times) and Hungary (eight times) are among the cheapest.

Growth is another factor driving interest in Central and Eastern Europe.

Morgan Stanley projects emerging markets world-wide will have triple the growth rate of developed markets in 2010. Deutsche Bank estimates that non euro-zone countries, such as Poland and the Czech Republic, will have superior growth rates than the euro-zone.

"Growth in the eurozone will underperform other regions of the world, and there are good reasons to be cautious about the region overall," says Robert Parkes, strategist at HSBC, citing the sovereign-debt issues specifically.

The bet on riskier assets assumes that Greece's problems will hit the euro zone countries but remain fairly contained there. That's how it has played out so far.

The euro is down nearly 5% against the dollar this year. And credit has become more expensive across much of the region, illustrated by higher yields demanded for recent Spanish, Irish and Portuguese bond sales.

The risk is that Europe will get hit harder, in particular its financial system. According to Morgan Stanley, 51% of Portugal's $165 billion in debt is owned by Spanish banks. Of Spain's $748 billion in debt, 32% is held by German banks and 25% by French banks. One lesson of the financial crisis is how interconnected the global banking system has become, making it hard to argue that these problems won't spread globally.

Weak economies and wounded financial systems might be too much for fast-growing countries to overcome. Timothy Ash, head of emerging markets research at the Royal Bank of Scotland, notes that foreign direct investment into the region has slumped dramatically and he believes it will be slow to bounce back.

Merger of Shinsei and Aozora appears to be faltering

Continued from page 21

The slowdown in talks in part reflects changing views inside Japan's Financial Services Agency, which originally was concerned that the wobbly banks threatened the Japanese banking system, and strongly supported the merger when it was announced July 1. The FSA also supported a shift in strategy to focus more on corporate lending, according to people familiar with the agency's guidance.

Although the FSA would still like to see a merger, now that the financial crisis has abated, the regulators seem more likely to accept the possibility that the banks will remain independent. The regulators are mindful of the pitfalls of a mismanaged merger and are keen to avoid one in which the banks only partially merge and fight internally.

By way of example, Japan's No. 3 bank by market capitalization, **Mizuho Financial Group**, is the result of a merger of three banks in 2002 and each still jealously safeguards its culture and influence within the group.

Indeed, the difficulties in the current negotiations illustrate the complications of a merger of equals. The banks have differed over which strategy the combined entity should pursue. Shinsei strongly advocates using retail deposits to fund its push into consumer finance, while Aozora favors deeper relationships with regional banks.

J. Christopher Flowers, whose private-equity firm **J.C. Flowers & Co.** owns 32.5% of Shinsei, revoked his backing of Norito Ikeda, currently an adviser at the **J.T. Kearney** consultancy, who had been set to become president of the new entity, said one person familiar with the matter. Mr. Ikeda led the reconstruction of Japanese regional lender **Ashikaga Bank**, which was once under government control, and the person said he would lean more toward Aozora's vision for the future.

There have also been squabbles over capitalization, the knowledgeable people said. **Cerberus Capital Management LP**, which holds about 55% of Aozora, and Aozora's management expected Shinsei to significantly boost its capital before any merger takes place, and that was the basis for agreeing to a one-for-one common-equity exchange ratio, the people said. Aozora had a Tier 1 ratio— a measure of bank balance-sheet strength—of 14.38% as of Dec. 31, nearly double Shinsei's ratio of 7.83% as of Dec. 31.

Mr. Flowers, a former **Goldman Sachs** partner who made his name in private equity by buying out Shinsei, decided an injection of public funds wasn't necessary when the financial markets recovered, because Shinsei could try to raise capital on its own, said people familiar with the matter. This put the exchange ratio up for discussion again.

INDEX TO BUSINESSES AND PEOPLE

Businesses

This index of businesses mentioned in today's issue of The Wall Street Journal is intended to include all significant reference to companies. First reference to the companies appears in bold face type in all articles except those on page one and the editorial pages.

A123 Systems....17
Ace Investments....17
Aeris Capital....17
Airbus....4
Aircastle....25
Alcon....25
Amazon....10
Angeleno Group....17
Anglo American....28
Anthera Pharmaceuticals....27
Aozora Bank....21
Apple....10, 14
Ashikaga Bank....22
AXA Asia Pacific Holdings....26
Baker Hughes....25
Bank of East Asia....21
BJ Services....25
Blackstone Group....29
Bloomberg....28
Boeing....4, 25
Bridgestone....23
Cadbury....25
Cameron International....25
Cerberus Capital Management LP....22
China Mobile....21, 30
China National Nuclear....17
China Science & Merchants Venture Capital....26
China Shenhua Energy....30
Coda Automotive....17
Cybernaut (China) Investment....17
Dell....14
eBay....10
European Aeronautic Defence & Space....25
Ferrari....10
Finance....13
Fisker Automotive....17
FMC Technologies....25
Ford Motor....24
Fortescue Metals Group....23
Fortis Insurance....23
Freescale Semiconductor....29
Galleon Group....29
Generac Holdings....27
General Growth Properties....29
General Motors....24
GlaxoSmithKline....24
Godrej Consumer Products....36
Goldman Sachs Group....10, 17, 22
Google....10
Graham Packaging....27
Groupe Danone....25
Halliburton....25
Harley Davidson....10
Henderson Land Development....30
Hennessee Group....20
Hilton Worldwide....29
Hitachi Construction Machinery....30
Hong Kong Exchanges & Clearing....29
HSBC....21, 22
IFM Investments....27
Ikea....10
Industrial & Commercial Bank of China....30
Inpex....30
Intel....28
J.C. Flowers....22
J.P. Morgan Chase....29
J.T. Kearney....22
K.K. daVinci Holdings....30
Kleiner Perkins Caufield & Byers....17
Kraft Foods....25
Lazard Freres....28
Leucadia National....23
Lihir Gold....30
McAfee....15
Mead Johnson Nutrition....25
Merrill Lynch....22
Michaels Stores....29
Michelin....23
Mitsubishi Estate....30
Mizuho Financial Group....22
Monarch Alternative Capital....28
Nasdaq OMX Group....21
National Australia Bank....26
National Oilwell Varco....25
Nestle....25
New Castle Funds....29
Novartis....25
NYSE Euronext....21
Oxford Instruments....16
Pacific Century Regional Developments....23
Pacific Metals....30
PacMag Metals Ltd....17
PCCW....23
Plainfield Asset Management....27
Procter & Gamble....36
Quadrangle Group....28
Reuters....10
Rio Tinto....28, 30
Rusal....21
Schlumberger....25
Shinsei Bank....21
Simon Property Group....29
Smith International....25
Sparton Resources....17
Starbucks....10
Starwood Hotels & Resorts....29
Sun Hung Kai Properties....30
Takeda Pharmaceutical....24
Tata Steel....16
Toyota Motor....1, 24, 36
Trend Micro....30
UBS....27
Unilever....25
US Airways Group....25
Weatherford International....25
Xstrata....28
Yahoo....10
Zara....10
Zhejiang Zhongtai Vehicle Manufacturer....17

People

This index lists the names of business-people and government regulators who receive significant mention in Today's Journal.

Abramowitz, Elkan....27
Alonso, Daniel....27
Anello, Robert....27
Ash, Timothy....22
Bae Sung-young....26
Barclay, Fiona....23
Barker, A. Lee....17
Bloomberg, Michael....28
Bulcke, Paul....25
Bullard, James....26
Carroll, Cynthia....28
Cassidy, James....30
Chiesi, Danielle....29
Clyne, Cameron....26
Connelly, Mark....27
Cooper, Josephine....1
Cordier, James....30
Courpron, Henri....25
Cowley, Steven....16
Crowe, Erin....20
Drossos, Sophia....31
Flaharty, Gary....25
Flint, Jonathan....16
Flowers, J. Christopher....22
Gupta, Raul....21
Hanson, Robert....26
Hantho, Mark....27
Heller, Steven....17
Ikeda, Norito....22
Ka, Li....23
Karzai, Hamid....8
Kasman, Bruce....6
Kaufmann, Adam....27
Kohli, Aaron....31
Kotok, David....7
Kwon, Young Sun....26
Lall, Rajiv....3
Leahy, John....25
Leung, Steven....26
Li, Richard....23
Lockhart, Dennis....26
McChrystal, Stanley....8
McNerney, Jim....25
Moore, Gordon....28
Morgenthau, Robert....27
Morita, Chotaro....31
Mukherjee, Pranab....13
Murthy, Mahesh....10
Paal, Douglas....4
Parkes, Robert....22
Patton, Spencer....30
Pond, Michael....31
Rajaratnam, Raj....29
Rakoff, Jed S....29
Rattner, Steven....28
Ring, Hans Peter....25
Rode, Johan....28
Rogers, Martin....23
Rowley, Graeme....23
Ruth, Alice....28
Sarwono, Hartadi....26
Schowitz, Patrik....22
Shirakawa, Masaaki....31
Song, Jerry....26
Spitzer, Eliot....27
Tetangco, Amando....26
Tevfil, Hasan....22
Toyoda, Akio....1, 24, 36
Tsang, John....26
Tucci, Tom....31
Vance, Cyrus Jr....27
Wainshal, Ron....25
Weber, Richard....27
Whitacre, Ed....24
Yuen, Francis....23
Zolotusky, Kostya....25

PCCW buyout deal investigated

Richard Li's home is searched amid inquiry into last year's failed attempt to privatize firm

By Jonathan Cheng

HONG KONG—Local police are investigating the circumstances around an attempt last year by Hong Kong tycoon Richard Li to buy out telecommunications concern **PCCW** Ltd., according to a person familiar with the matter.

The high-profile deal, which was eventually withdrawn in 2009, drew the scrutiny of securities regulators and Hong Kong's courts for alleged irregularities in the shareholder vote.

Police earlier this month searched Mr. Li's home and workplace, as part of the investigation, according to the person familiar with the case. Mr. Li, the chairman of PCCW and son of Hong Kong's richest man, Li Ka-shing, has not been implicated in any wrongdoing.

"We do not believe Richard Li is the target of any investigation or that any senior management of **PCRD** or PCCW has committed any wrongdoing. We will co-operate fully with any investigation and wish to see it resolved as soon as practically possible," Martin Rogers, a lawyer for Mr. Li at the law firm Clifford Chance, said in a statement.

PCRD, or Pacific Century Regional Developments Ltd., is an investment arm controlled by Mr. Li that was involved in the PCCW buyout bid.

The investigation appears to be broadly related to Mr. Li's US$2.1 billion bid to buy out PCCW, Hong Kong's largest phone company, the person familiar with the matter said.

Associated Press

Richard Li dropped the attempt to take PCCW private last year.

The buyout attempt, which faced strong opposition from minority shareholders, was approved in a shareholder vote last February.

But in a rare move for Hong Kong regulators, investigators from the Securities and Futures Commission seized voting ballots immediately after the meeting and later appealed to Hong Kong's courts to block the buyout, alleging voting irregularities. In court, the SFC said a member of Mr. Li's buyout group had instructed a top manager at **Fortis** NV's Asian insurance arm to distribute PCCW shares to hundreds of Fortis agents who would profit if they voted and helped the deal go through.

Last April, Hong Kong's Court of Appeal ruled in the SFC's favor, and Mr. Li scrapped the buyout offer.

A spokeswoman for Fortis Insurance Co. (Asia) confirmed Saturday that it had "received police inquiries" earlier this month, but declined to comment on whether the inquiries were linked to Mr. Li or PCCW.

One of Mr. Li's associates, Francis Yuen, ran what is now the Fortis insurance business when it was controlled by Mr. Li's investment vehicle, Pacific Century Regional Developments. Mr. Yuen didn't respond to a request for comment.

Spokespeople for the SFC, Hong Kong police and PCCW declined to comment Saturday.

The case was an unusual one because Hong Kong's regulators had rarely inserted themselves into the dealings of the city's business elite. The PCCW case was one of the SFC's highest-profile interventions.

David Webb, an independent shareholder activist who first publicly raised suspicions about irregularities in PCCW's shareholder register, said Sunday that the latest inquiries, although a year after the shareholder vote, suggested that the government may yet bring charges in the case.

"It was always quite clear that the vote-rigging was not a crime in itself," Mr. Webb said, noting that current Hong Kong law doesn't explicitly outlaw the practice. Instead, Mr. Webb says "common sense" suggests investigators may be interested in whether anyone lied to regulators in the course of the investigation—a criminal offense in Hong Kong.

Bridgestone says earnings slid last year

By Hiroyuki Kachi

TOKYO—**Bridgestone** Corp. on Friday said its net profit tumbled 90% in 2009 from a year earlier amid a global slump in tire demand and the effects of a strong yen, but that it expects to recover this year with a pickup in sales and benefits from cost-cutting.

The Japanese company, which competes with **Michelin** of France for the top spot in global tire sales, posted a net profit of 1.04 billion yen ($11.6 million) for last year compared with a profit of 10.41 billion yen in 2008.

The latest figure shows how weak tire demand and dwindling automobile sales have eroded Bridgestone's profitability. Furthermore, the strong yen pulled down operating profit by 44 billion yen. A special loss of 10.6 billion yen incurred from the closure of production facilities in Australia and New Zealand also squeezed the bottom line.

Sales fell 20% to 2.597 trillion yen, and operating profit dropped 42% to 75.71 billion yen.

But the company expects tire sales in terms of volume to recover this year, partly because of government subsidies in some countries to encourage the purchase of fuel-efficient cars. Bridgestone also expects increased income from some high-margin products, such as its "run-flat" tires, which can be driven on even if damaged.

Miner Fortescue delays expansion at Pilbara

By Alex Wilson

MELBOURNE—**Fortescue Metals Group** Ltd. reported a 94% drop in fiscal first-half net income and pushed back the date for a key expansion of its Pilbara iron-ore mining operation by more than year, as it continues to grapple with the effect of the collapse of a Chinese funding agreement.

The Perth-based company said it is now aiming to expand its mine operations in the Pilbara to an annualized output rate of 92 million metric tons a year by April 2013. Previously, Fortescue had said it expected to reach an annualized rate of 95 million tons a year from February 2012.

Fortescue Executive Director Graeme Rowley said the method of funding for the expansion will depend on market conditions and that if conditions were good, the miner's first preference was to self fund the development.

But Fortescue would also consider other funding options, including joint ventures, debt financing and the least-favored option of an equity raising, Mr. Rowley said, and external funds could speed up the project.

"If we did in fact go ahead and raise external capital, then yes we could bring the date forward," he told reporters.

A deal to raise US$6 billion in debt for expansions from China, and an associated ore discount to Chinese steel mills, fell through in September when the miner couldn't agree on acceptable terms with Chinese financiers.

Bloomberg News

Executive Director Graeme Rowley

Fortescue posted net profit of US$43 million for the first half ended Dec. 31, down 94% on the prior year when its restated profit was US$760 million, with the decrease largely due to a negative accounting charge on its loan note to **Leucadia National** Corp.

The revaluation of the Leucadia loan note resulted in a negative adjustment of US$55 million; it had boosted first-half profit by US$1.4 billion in the prior year.

Chief Financial Officer Fiona Barclay said underlying net profit, excluding the impact of the loan note revaluation and currency, was US$98 million, down from US$164 million the previous period.

This was due to lower average realized prices during the half, which fell to US$57.22 per dry metric ton from US$71.65 in the previous comparable period.

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Key Issues To Be Discussed

Limited Partners Forum
Outlining institutional investors' criteria before entering the Southeast Asia private equity market

Country specific analysis
Evaluating private equity investment opportunities and challenges in Southeast Asia countries which include Indonesia, Malaysia, Vietnam and Cambodia

Private equity investing strategies
Forecasting growth capital, leveraged buyout, M&A and distressing investing opportunities in Southeast Asia

Funding strategies
Assessing financing and re-financing options in a credit-constrained environment

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Associated Press

Rep. Darrell Issa, above, says the House oversight committee wants to hear about Toyota's approach to safety issues.

Toyota braces for scrutiny in U.S.

Continued from first page

dealer based in Washington, D.C., who is helping organize the dealer visits. Toyota has said in recent ads that the company and its dealers employ 172,000 people in the U.S.

Meanwhile, the auto maker has given 133 briefings over the past two months to members of the two House of Representatives committees examining the issue. Nearly half of those briefings, Toyota officials say, have been sessions in which company technicians demonstrated how the auto maker had moved to fix its accelerator problems.

Toyota officials say they hope to use the hearings to persuade lawmakers and the public that the company has its safety problems in hand and that the spate of recent recalls isn't markedly out of the ordinary for the auto industry. Toyota has had to recall eight million vehicles in recent months, including top-selling models such as the Corolla, the Camry and the Prius hybrid.

"Recalls happen," said Ms. Cooper, encapsulating the company's message leading up to the hearings. "These recalls are no different from many, many others."

Members of Congress say they are eager to hear how Toyota plans to overcome management problems that appear to have allowed safety concerns to fester and grow. "From Akio Toyoda, we really want to hear if he has a vision and commitment for real change in how safety is approached at Toyota world-wide," said California Rep. Darrell Issa, the ranking Republican on the House oversight committee. "It appears as though there is a pattern at Toyota of not wanting to tell your boss you have a safety problem."

U.S. Transportation Secretary Ray LaHood and David Strickland, head of the National Highway Traffic Safety Administration, will likely face questioning over why regulators didn't act more swiftly and decisively to deal with consumer complaints of sudden-acceleration problems. Some of the complaints go back as far as 2004.

Rep. Bart Gordon, a Democrat from Tennessee who first contacted NHTSA about a Toyota accelerator problem in 2007, said that the focus of the hearings should be on how the U.S. regulators responded. "A serious examination of these accelerator issues two years ago may have allowed the problem to be addressed earlier, saving lives and reducing the number of vehicles recalled," he said. U.S. regulators now say that the acceleration problems may have caused as many as 34 deaths in the U.S.

The start of congressional action involving Toyota has stirred concern within the U.S. automotive industry that legislators may move to impose a new layer of regulation, as happened after fatal rollover accidents 10 years ago involving **Ford Motor** Co. Explorer sport-utility vehicles and Firestone tires.

But so far Congress appears unlikely to take that route, with several lawmakers saying Toyota's problems lay more in lax oversight, not faulty legislation. Rep. Issa compared the hearings with those in 2005 that prodded Major League Baseball to rein in the abuse of steroids. "We shed light on the problem, and others made rule changes that made a real difference," Mr. Issa said. "That's what we'd like to see happen here."

Toyota officials and U.S. regulators are scheduled to face questioning from three congressional committees: the House Energy and Commerce Committee on Tuesday, the House oversight committee on Wednesday and the Senate Commerce Committee on March 2.

Bush officials to face questioning

By Josh Mitchell

WASHINGTON—A House committee investigating **Toyota Motor** Corp. will broaden its probe to examine whether Bush administration officials adequately responded to the Japanese auto maker's safety problems, the panel's senior Republican said Friday.

The House Oversight and Government Reform Committee plans to hold a second hearing on the Toyota crisis, likely in the first week of March, Rep. Darrell Issa (R., Calif.) said in an interview.

The committee's first hearing, scheduled for Wednesday, is set to include testimony from Toyota President Akio Toyoda and U.S. Transportation Secretary Ray LaHood.

Rep. Issa said for the second hearing, the committee will seek testimony from officials who led the Transportation Department and the agency's National Highway Traffic Safety Administration under former President George W. Bush. Rep. Issa said there are questions about whether the NHTSA responded adequately to signs in recent years of broader safety problems at Toyota.

"There isn't an NHTSA failure under this president. There is a continuation of a failure" that may go back more than a decade, Mr. Issa said. He said he has seen no evidence that the NHTSA under Bush did anything "overtly wrong" but added that he believes the agency failed to correct a "looming problem" with Toyota.

Nicole Nason, who served as NHTSA administrator in the Bush administration, said she has consulted with congressional staffers during their Toyota inquiry but hasn't been invited to testify. Ms. Nason, who has defended her agency's response to the Toyota complaints and has questioned whether the auto maker has been forthright in alerting regulators to safety problems, said she would be open to appearing before Congress.

A spokeswoman for committee Chairman Edolphus Towns (D., N.Y.) said a second hearing hadn't been planned yet.

The House and Senate commerce committees have also scheduled hearings to examine Toyota's recall of about six million U.S. vehicles for gas-pedal and sudden-acceleration problems. The first hearing is scheduled for Tuesday.

GM chief to receive $9 million package

By Sharon Terlep

General Motors Co. Chief Executive Ed Whitacre will receive a pay package valued at $9 million to help turn around the government-owned auto maker, according to a regulatory filing.

Mr. Whitacre, according to the filing, will receive a $1.7 million base salary this year. The rest of his compensation is comprised of $5.3 million in stock available to him beginning in 2012 and restricted stock units valued currently at $2 million.

Ed Whitacre

The auto maker will pay former-CEO Frederick "Fritz" Henderson $59,090 a month beginning this week for consulting on international operations. The consulting deal surprised some GM executives. Mr. Henderson has not been working for the company since he resigned under pressure from the GM board.

Mr. Whitacre became the auto maker's full-time CEO last month following a short stint as acting chief. Mr. Whitacre was GM's chairman at the time and continues in that role. He does not receive additional pay for his work as chairman of the board.

Because GM is subject to restrictions on pay the U.S. imposed on companies it bailed out, U.S. Treasury pay czar Kenneth Feinberg had to approve the package.

Mr. Whitacre had said in December that the government's pay restrictions were making it difficult for GM to find a suitable candidate for CEO.

Mr. Henderson's pay as CEO had been set at $5.5 million, including a $1.3 million annual salary. Mr. Henderson's commitment to GM is relatively flexible. According to Friday's filing, he is expected to provide about 20 hours of consulting a month and meet once a month with the head of GM's international operations. He is free to work for other companies as long as they don't compete with GM.

Mr. Henderson was picked by the Obama administration to lead GM after it forced out then-CEO Rick Wagoner last spring as a condition of providing a federal bailout.

Mr. Whitacre, whom the Obama administration brought in as chairman last summer amid GM's federally financed bankruptcy reorganization, assumed the chief executive post on a permanent basis a month ago. Mr. Whitacre, a former chairman and chief executive of AT&T Inc., has pushed for faster, more dramatic change at GM. He promised to repay a $6.7 billion in U.S. government loans by this summer and has predicted that GM will become profitable in 2010 for the first time in six years.

U.S. urges Glaxo to pull Avandia on heart risks

By Jared A. Favole And Alicia Mundy

WASHINGTON—Confidential studies by U.S. Food and Drug Administration officials recommend that **GlaxoSmithKline**'s Avandia, a diabetes medicine, get pulled from the market because it is linked to heart attacks.

The studies, released as part of a report on Avandia by staff of Senate Finance Committee members Chuck Grassley (R., Iowa) and Max Baucus (D., Mont.), also say any head-to-head trial where patients get Avandia and **Takeda Pharmaceutical** Co.'s diabetes medicine Actos would be "unethical and exploitative." Glaxo is currently sponsoring a study, called TIDE, where patients get either Avandia, Actos or other medicines.

Glaxo said in a prepared statement that it has extensively studied Avandia in more than 52,000 patients and none of its reports shows a statistically significant association between Avandia and heart attacks. The firm said the TIDE study was mandated by the FDA and "has been approved by an independent review board and appropriate safety boards that are responsible for assessing the safety of conducting the trial."

The company also noted that an FDA-convened advisory committee of scientists and doctors in 2007 voted in favor of keeping the medicine on the market. The news of the Senate Finance Committee report and internal FDA studies were first published by The New York Times on Saturday. That panel voted 22 to 1 to keep the drug available but also voted 20 to 3 that Avandia increases the risk of a heart attack.

The dust-up over Avandia started in 2007 when Cleveland Clinic cardiologist Steve Nissen published a study in the New England Journal of Medicine that found a 43% higher risk of cardiovascular events for patients taking Avandia. Glaxo publicly denounced the findings, but internal emails since released and included as part of the Senate Finance Committee report indicate that company scientists felt the company's own numbers were similar to Dr. Nissen's.

The company has faced criticism that it has know about the heart-attack risks associated with Avandia for years. Glaxo added a "black box" warning to Avandia in November 2007 that says the drug can cause or exacerbate congestive heart failure.

The company has also faced accusations that it attempted to intimidate scientists and doctors outside the company who raised questions about the safety of Avandia. The company has said that it didn't try to intimidate anyone.

The Senate Finance Committee report concludes that Glaxo was aware of the possible cardiac risk years prior to Dr. Nissen's study. The report says Glaxo had a duty to warn patients and the FDA about its concerns in a timely manner.

Portions of the Senate Finance Committee's review were reported last year in The Wall Street Journal.

CORPORATE NEWS

Airline cash squeeze presses jet makers

Airbus, Boeing shuffle orders to keep production lines rolling as carriers defer deliveries of new aircraft

By Daniel Michaels

Airlines world-wide, despite improving traffic, still face a cash squeeze that is forcing jet makers Airbus and **Boeing** Co. to work harder to keep their factories busy.

So far, Airbus and Boeing have been able to avoid major production cutbacks by juggling orders and delaying airplane deliveries to many customers, officials at both companies say.

But the cash squeeze is widening the gap between healthier airlines that can tap stock and debt markets to fund new plane purchases and weaker rivals that must struggle for funding. Pressure is growing as rising fuel prices threaten to outpace the slight fare increases that carriers have recently been able to make stick.

If carriers' finances improve over coming months, airlines that recently deferred deliveries should be in a better position to complete their orders over coming years. But if the airline industry slips back into crisis, Boeing and Airbus, already struggling with cost overruns on new planes, could be forced to make costly cuts in jetliner production. Both have already shelved expansion plans and throttled back output. On Friday, Boeing warned some 1,000 employees, mostly technology workers, they may lose their jobs in April.

For airlines that order new jetliners, the installment payments required by Airbus and Boeing while the planes are under construction are a major expenditure. These so-called predelivery payments, which can reach tens of millions of dollar per jetliner, currently are very difficult to finance through banks, so most airlines are forced to fund them with cash.

Airbus officials said last month they had shifted some 600 planes in their production schedules over the previous 18 months because of delayed deliveries. "A lot of aircraft move because of airlines' inability to make predelivery payments," said Airbus Chief Operating Officer John Leahy, the company's top airplane salesman. Some stronger carriers capitalize on such delays by accelerating deliveries, he added. Airbus had 31 cancellations in 2009.

Hans Peter Ring, chief financial officer of Airbus parent **European Aeronautic Defence & Space** Co., said an airline's ability to make installment payments is a "litmus test" of its ability to pay the balance due on delivery.

US Airways Group Inc. in November deferred delivery of 54 Airbus planes, which it said would cut its capital expenditures by roughly $2.5 billion over three years and help lift its year-end liquidity by $150 million. The airline will instead keep its existing planes longer.The deferral offers "a more manageable delivery rate given the current economic environment," Chief Financial Officer Derek Kerr said in a statement.

For the quarter ended Dec. 31, US Airways reported a loss of $79 million and had $1.5 billion in cash and liquid investments.

Aer Lingus Group PLC, which has been hit by Ireland's deep recession, deferred seven Airbus planes in 2009. The unprofitable Irish carrier's free cash dropped by more than 30% last year, to €770 million ($1.05 billion) on Dec. 31.

Boeing has also faced deferrals. Canada's profitable WestJet Airlines Ltd. in August deferred 16 planes to meet slowing demand, even though it had 962 million Canadian dollars (US$924 million) in cash on hand after an equity offering.

Australia's Qantas Airways Ltd. in June canceled orders for 15 of Boeing's new 787 Dreamliners and delayed delivery of another 15, in a move the carrier said would save it $3 billion in capital expenditures. On Dec. 31, Qantas had a strong cash balance of $3.2 billion, but the carrier has slashed capacity to meet falling demand.

In total, Boeing faced 121 order cancellations and deferred 271 deliveries last year, Chairman and Chief Executive Jim McNerney said last month. He said the rate of deferral requests slowed in the fourth quarter. Kostya Zolotusky, managing director of capital-markets development at Boeing's finance arm, said that while lending for airlines' predelivery payments has eased in recent months, "availability remains challenging compared to the very liquid period" before the financial crisis.

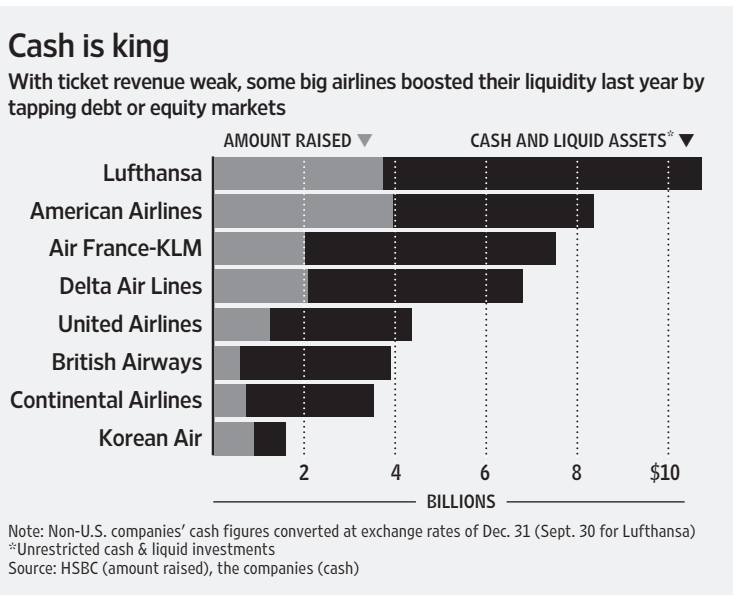
Mr. Leahy at Airbus said last month that pressure to shift delivery slots has eased in recent months, following a period in which the industry "was in free fall." He said the improvement is "a further sign that airlines are getting healthier." But others in the industry are more cautious.

"The market's thawing, but access to capital is still a big issue, especially for smaller, less-well-capitalized airlines," said Ron Wainshal, chief executive officer of aircraft lessor **Aircastle** Ltd. in Stamford, Conn.

Brian Pearce, chief economist at the International Air Transport Association, a trade group, said that while airfares are starting to rise in the U.S. and Asia, European airlines are still struggling. Airlines worldwide still face big losses, which eat into cash reserves, he said.

Mr. Pearce noted that carriers have boosted fares by restricting the supply of seats they offer. They did this by flying their planes on average 6% fewer hours than in early 2008—a move that increases the cost of each remaining hour the planes fly and eats into any gains. "Cash from operations is still very weak," Mr. Pearce said.

—David Pearson contributed to this article.



Oil-field firms seek partners

By Ben Casselman

A possible merger between **Schlumberger** Ltd. and **Smith International** Inc. highlights that size is still key in the oil-field services industry.

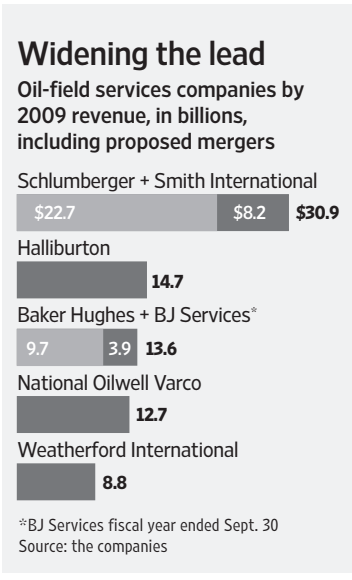
Schlumberger, already the world's biggest oil-field-services company by revenue and market value, is close to an agreement to acquire Smith, according to people familiar with the situation. A deal isn't finalized and could still break down.

A deal would create an industry giant with more than double the revenue of its nearest rival, **Halliburton** Co. Any transaction could be valued at $9 billion or more, these people said. An exact price couldn't be learned.

Industry analysts said a deal could force competitors including Halliburton, **Weatherford International** Ltd. and **National Oilwell Varco** Inc., to pursue deals of their own in order to compete. None of the companies returned calls for comment.

Smith shares rose 13%, or $4.35, to $37.70 while Schlumberger's fell 2.9%, or $1.91, to $63.90, both in 4 p.m. trading Friday on the New York Stock Exchange.

A wide breadth of services offerings and financial size have become increasingly important for services companies, which help oil companies locate and drill for oil deposits. As more and more of the world's oil is produced overseas, the industry's customers are increasingly state-run oil companies, which often prefer to work with firms that can offer a full range of products and services.



In August, **Baker Hughes** Inc., the fourth-largest services firm by revenue, announced plans to acquire smaller **BJ Services** Inc. for $5.5 billion. The deal, which is expected to close this spring, would help Baker fill key holes in its product line, which many analysts said had been making it hard for the company to win big contracts overseas. "When you go to international markets in particular, not only scale but breadth of products and services is important," said Gary Flaharty, head of investor relations for Baker Hughes. "It gives you more tools for the tool kit."

Mr. Flaharty said Baker is unlikely to make another big acquisition until it has finished integrating BJ Services, although he said the company still had the flexibility to make smaller deals.

Oil-field service companies have struggled recently as the global economic slowdown cut into demand for oil and gas. But larger companies such as Schlumberger and Halliburton have weathered the economic storm better than many competitors, and in some cases have taken business away from smaller companies. That has led to speculation that stronger companies could snap up weaker rivals.

But few industry analysts predicted a huge wave of acquisitions similar to the surge in mergers among big oil producers a decade ago. In part, that is because there aren't many big companies left to buy—and the ones that would be attractive targets, such as equipment maker **Cameron International** Corp. or **FMC Technologies** Inc. are too expensive for most buyers.

"Do I necessarily see this unlocking a spate of consolidation? Not really," said Bill Herbert, an analyst with Simmons & Co. in Houston. "The industry's pretty consolidated as it is."

What is more likely, experts said, is a series of smaller deals, as companies look to fill voids in their product lines. National Oilwell Varco, for example, has said publicly that it would like to increase the size of its drilling fluids business.

Brad Handler, an analyst with Credit Suisse in New York, said the deal not only fills a gap for Schlumberger, but also helps prevent Smith from developing into a serious competitor down the road—or being acquired by one.

Nestlé reports growth in China and Africa

By Deborah Ball

ZURICH—**Nestlé** SA reported a 42% decline in full-year profit, in part because of a gain in 2008, but said underlying sales growth was strong thanks to increased advertising spending that stimulated sales and robust emerging markets such as China and Africa.

Nestlé, based in Vevey, Switzerland, and owner of such brands as KitKat, Gerber baby food and Nescafé coffee, reported that sales fell 2.1% last year, to 107.62 billion Swiss francs ($99.87 billion).

Earnings fell to 10.43 billion francs from 18.04 billion francs in 2008, when Nestlé benefited from the sale of part of eye-care company **Alcon** Inc. Operating profit was largely flat at 15 billion francs.

However, organic-sales growth, which adjusts for divestitures, acquisitions and currency movements, rose 4.1%, with growth picking up strongly in the last quarter.

The economic downturn has pushed shoppers to cut spending or trade down to less-expensive products. At the same time, however, a drop in raw-material prices last year allowed many companies to put the savings into advertising or offering extra product for the same price. That helped companies such as **Unilever**, **Groupe Danone** SA and Nestlé lure shoppers into spending more. Nestlé increased its advertising spending by 10% last year.

Nestlé, the world's largest food company by sales, outpaced its main European rivals last year in underlying growth. Unilever posted growth of 3.5%, while Danone reported a 3.2% rise.

Nestlé benefited from its broad portfolio, leverage with retailers and large businesses in emerging markets. Nestlé's Brazilian, African and Chinese businesses all posted double-digit growth last year. European sales rose an anemic 0.3%.

As shoppers in emerging markets spend more on packaged goods, Nestlé expects those countries to represent 45% of group sales in the medium term, up from 35% currently. Nestlé is investing heavily in new factories and launching less-expensive versions of its big brands. Helped by these markets as well as a moderate pickup in Europe, Nestlé Chief Executive Paul Bulcke expects 2010 organic growth to be higher than last year.

In 2009, pet food, including brands such as Friskies and Purina, grew 7.9%, while confectionery grew 4.3%, led by a 7.1% rise in KitKat, the Swiss company's largest candy brand with sales of about two billion francs. Last year, Nestlé stood at the sidelines while **Kraft Foods** Inc. launched a successful takeover of **Cadbury** PLC, leaving Nestlé a more distant No. 3 player in the world candy market behind Mars and a combined Kraft-Cadbury. To help fund its long takeover battle, Kraft sold Nestlé its frozen-pizza business for $3.7 billion last month.

Nestlé's waters business, including Pure Life, Poland Spring and Perrier, was its worst category, with organic sales down 1.4%.

Central banks dismiss Fed move

Asian economic policy makers are quick to reassure markets wary of a rate tightening

By Reuben Carder and Cris Larano

Historically, Asia has looked to the U.S. Federal Reserve for guidance on monetary policy.

So when the Fed raised an emergency lending rate on Thursday, investors in Asian markets ignored assurances from central bankers that the move didn't portend an acceleration of tightening measures already under way around the region. Most Asian markets fell Friday, some sharply.

The concern among investors and central bankers is that if Asian banks raise rates faster than those in the U.S., it could attract large capital flows that inflate currencies and make regional exporters less competitive. That, in turn, could snuff out the economic recovery.

"The Fed's move will certainly revive [concerns in stock markets] that the global tightening moves may come earlier than expected," said Bae Sung-young at Hyundai Securities in Seoul.

Economic policy makers in Hong Kong, Indonesia, Taiwan and the Philippines said Friday that nothing has fundamentally changed for them after the Fed raised its discount rate by a quarter of a percentage point to 0.75%.

To be sure, some Asian countries have begun to break out of the mold of simply following the Fed and have moved ahead on their own to remove stimulus amid rebounding economies and inflation worries. Australia's central bank has raised its key policy rate three times, the Reserve Bank of India looks set to follow suit soon, and China has drained liquidity by ratcheting up the amount of cash banks must keep in reserve.

The Fed itself played down the significance of the move. Three top officials fanned out, with Atlanta Federal Reserve Bank President Dennis Lockhart saying the discount-rate increase wasn't "a sign that a tightening is imminent." St. Louis Fed chief James Bullard said the U.S. central bank may not raise its key rate target until 2011.

Taking the Fed's cue, the head of the Philippine central bank said there was no urgency to react to the U.S. move. Indeed, the Fed's discount-rate increase mirrors a liquidity-draining step already taken by Manila as it prepares to tighten policy. "The Fed move was meant to have banks slowly veer away from the Fed lending facilities and look to private sources of funding—part of the technical adjustment to the normalization of the market," Amando Tetangco, the governor of Bangko Sentral ng Pilipinas, told reporters by text message.

Bank Indonesia called the Fed increase a vote of confidence in the U.S. and global recovery. "The implication is that global trade will recover quickly, most importantly Indonesia's exports," Deputy Gov. Hartadi Sarwono said in a text message.

A senior official indicated Bank Indonesia will hold off on raising rates until the second half of the year, despite some concerns that this would be too dovish. The bank's monetary policy will likely take the Fed's move into account but will also "depend very much on what's going on in the global economy and the direction of the policies in both the U.S. and in the region," the official said.

Taiwan's central bank echoed the Fed's stance that the move wasn't a monetary tightening, saying it will continue monitoring the overseas and domestic economic situation and take appropriate monetary policy steps at the right time. Hong Kong Financial Secretary John Tsang also said the Fed's move shouldn't be viewed as the beginning of tighter monetary policy.

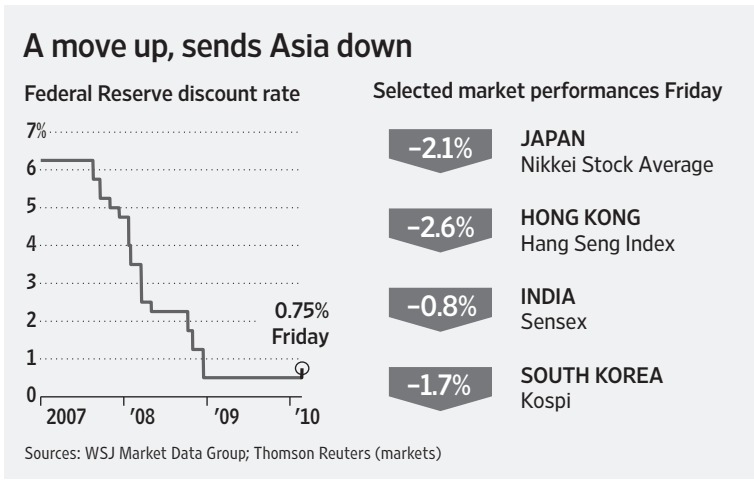
The Bank of Korea won't be rushed to raise its policy rate, said Nomura's Young Sun Kwon, a former central bank economist. Mr. Kwon stuck with his forecast of a rate increase June 10 but said the central bank may signal that tightening by reducing the cap on special loans to banks that are earmarked for lending to smaller businesses.

Still, given Asia's historical tendency to follow Fed rate actions, moves by the U.S. central bank to tighten policy, even in small ways, will make it easier for policy makers in Asia to do the same.

Analysts said the fast-recovering region's central banks will continue their measured reversal of emergency steps they took to combat the global financial crisis of the past two years.

"China already started tightening a month ago with the reserve-requirement ratio increase," said Steven Leung, a director of institutional sales with UOB KayHian in Hong Kong. "The Fed's move is in the same direction as central banks gradually exit stimulus measures."

—Farida Husna in Jakarta, Alex Pevzner in Taipei, Robert Li and Chester Yung in Hong Kong, and Soo-Kyung Seo in Seoul contributed to this article.



China tightens bank lending with new rules

BEIJING—China's banking regulator has called on banks to prudently manage their lending, putting in place rules aimed at ensuring that loans to individuals and businesses are used properly and requiring banks to stay vigilant about their lending even after the loans are made.

The China Banking Regulatory Commission sought public comment last year when the two regulations governing loans for working capital and personal loans were being formulated.

The finalized rules, issued on the CBRC Web site on Saturday, were effective immediately. They come amid a tightening by policy makers on loose bank lending, which had encouraged speculators to borrow money cheaply and invest it in the domestic stock and property markets, increasing the risk that "bubbles" will form in those markets.

Beijing has signaled it is moving away from its accommodative credit and monetary policies as the domestic economy recovers. The People's Bank of China has raised the reserve-requirement ratio twice since the start of the year, forcing commercial banks to park more of their money with the central bank.

—Liu Li, Yajun Zhang and Terence Poon contributed to this article.

NAB posts flat results, debt charges fall

By Lyndal McFarland

MELBOURNE—**National Australia Bank** Ltd. reported that its fiscal first-quarter cash earnings were steady on year at 1.1 billion Australian dollars (US$992 million), lagging the growth rates recorded by some rivals, but said bad-debt charges have probably peaked.

The bank also said Friday that it is working to finalize its planned takeover of **AXA Asia Pacific Holdings** Ltd. and continues to monitor developments in the U.K. market, where it owns the Clydesdale and Yorkshire banks.

In a quarterly trading update, NAB said its cash earnings—a smoothed measure that strips out volatile items and doesn't count as net profit under accounting rules—were up 20% compared with the fiscal fourth quarter ended in September, reflecting lower charges for bad debts and boosted by A$33 million in contributions from recent acquisitions.

"Our business delivered a sound result in the December quarter," NAB Chief Executive Cameron Clyne said.

Charges for bad and doubtful debts for the three months to Dec. 31 were down around 10% on year at A$739 million, which was A$202 million lower than the September quarter.

"Bad and doubtful debt charges...are not expected to return to the peak experienced in the third quarter of the 2009 financial year," Mr. Clyne said.

The update confirms that Australia's biggest banks are putting the worst of the global financial crisis behind them, and lenders could build on profits as improving economic conditions in their home market stem the rise in problem loans.

Bank shares rallied sharply earlier this week after NAB's bigger rival, Westpac Banking Corp., stunned investors with a 33% increase in its first-quarter cash profit as bad-debt charges halved on year to A$400 million. Commonwealth Bank also reported a record first-half cash profit amid falling bad-debt charges.

NAB shares fell 2.7% Friday, after rallying in the days since Westpac's update amid overly optimistic views on the sector.

Citigroup analysts said NAB's first-quarter result was sound and better than expected but was already factored into the its share price.

Like his peers, NAB's Mr. Clyne said his bank is retaining a conservative approach to capital "given the fragile global recovery and uncertain regulatory environment." The bank's Tier 1 capital ratio stood at 9.3% at the end of December.

NAB said its net interest margin for the December quarter was broadly stable compared with the second half of 2009, with higher funding costs, including the cost of deposits, offsetting the benefits of loan repricing.

Mr. Clyne cautioned that the pace of repricing loans is likely to slow, particularly in its business-banking arm, as competitors return to the market.

Lending volumes in NAB's business-banking arm were steady in the first quarter, but the company indicated it is cautious about the outlook for problem loans in that unit.

Mr. Clyne said he is continuing to work to finalize the group's A$13.2 billion bid for AXA Asia Pacific.

"Fundamentally, we see wealth as an attractive business," Mr. Clyne told analysts. "We're increasingly attracted to wealth and the ability to generate earnings that don't rely on wholesale funding. The requirement of wholesale funding does remain an Achilles' heel...and the ability to generate earnings that don't rely on wholesale funding is important," he said.

NAB surprised the market with its offer for AXA Asia Pacific late last year, trumping a rival bid from wealth-management group AMP Ltd. The Australian Competition and Consumer Commission is investigating the competitive impacts of both bids but has indicated it sees more potential issues with NAB's offer than AMP's.

Both AMP and NAB plan to sell AXA Asia Pacific's Asian operations to France's AXA SA for A$9.13 billion if they are successful in a bid.

NAB hopes to have approval for the deal by May or June, Mr. Clyne said.

Bloomberg News

National Australia Bank's Sydney building; the bank reported a flat first quarter.

Hanson back to deal making with new fund

By Liam Vaughan

Robert Hanson is poised to start a China-focused fund, in a dramatic return to deal making for the son of the late U.K. industrialist Lord Hanson and heir to the family estate.

Mr. Hanson has signed a deal with private-equity firm **China Science & Merchants Venture Capital** Management, which has seven offices across China and is run by Jerry Song, the China director of Millennium Capital Partners.

Mr. Hanson will help raise international funds and advise on running the fund. No decision has yet been reached on whether the fund will be dollar- or yuan-denominated.

"I have a great Rolodex in the region, and I am very well connected in that part of the world," he said. "We will give international investors access to the wealth of opportunities in China and beyond."

Mr. Hanson is hoping to draw on relationships built up during his time as a senior banker with N.M. Rothschild in the region in the 1980s. In 1990, He joined the board of Hanson PLC, the conglomerate founded by his father in 1964, where Robert Hanson was responsible for deal making until he left the group to found Hanson Capital in 1998.

His father's conglomerate once spanned business interests from tobacco to to building materials and became a prominent symbol of the new business ethos of Thatcherite Britain, carrying out large deals aimed at underperforming companies.

Through the 1990s, it focused more on building materials and was bought by Germany's Heidelberg Cement AG in 2007.

‘World’s district attorney,’ part II

By Amir Efrati

Cyrus Vance Jr., the new Manhattan district attorney, is trying to step out of the shadow of Robert Morgenthau by doing more of what made his predecessor famous.

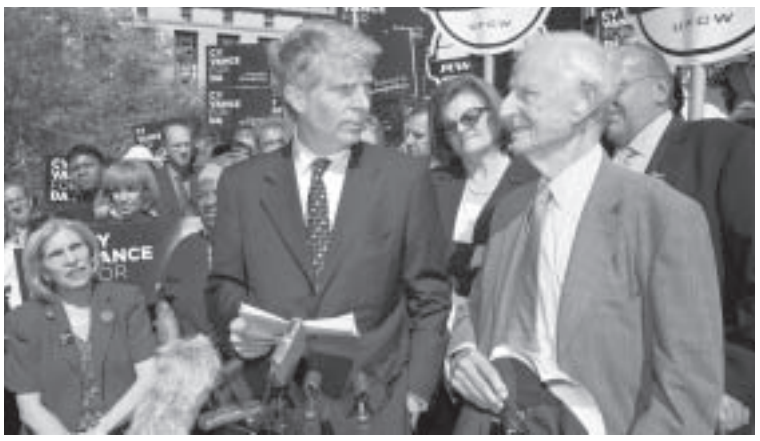
Six weeks into the job, the 55-year-old Mr. Vance has hired two veteran white-collar prosecutors and is launching an effort to prosecute New Yorkers who evaded taxes through offshore accounts.

The tax-evasion cases are a spillover from the Justice Department’s yearslong probe of Swiss bank **UBS** AG. Federal prosecutors can’t handle all of the cases, so they have handed some of them to Mr. Vance’s office. A Justice Department spokesman declined to comment.

Mr. Morgenthau, 90 years old, steered the high-profile office for more than three decades, earning a reputation as the “world’s district attorney” because of his investigations into global money laundering and other plots involving banks doing business in New York.

Mr. Vance, who won in a landslide after receiving Mr. Morgenthau’s endorsement, will emphasize white-collar crime though perhaps without his predecessor’s flair.

“We’re going to be active in all areas of the financial community,” Mr. Vance said in a recent interview at his office in lower Manhattan. He said he expects to increase the number of prosecutors dedicated to white-collar crime. Mr. Vance says he will continue those cases, even if critics say they should be handled by federal agencies.



Zuma Press

Cyrus Vance Jr., left, and Robert Morgenthau share a stage last September.

The appearance of the two men couldn’t be more different. Mr. Morgenthau, a former Navy destroyer officer, brought a hard-charging attitude to the prosecutor’s office. He was the master of big news conferences, and wasn’t afraid to unleash a swear word or two.

Mr. Vance, the son of former Secretary of State Cyrus Vance, is known for his modesty, dry sense of humor and a more guarded management style, colleagues say.

Unlike litigators who “can be hotheaded and speak off the cuff and say emotional things, Cy is a standout for how balanced his statements are,” says Robert Anello, a lawyer who worked with Mr. Vance at a New York firm. “You’d think Cy was secretary of state,” Mr. Anello says.

To be sure, white-collar prosecutions have historically made up only a small percentage of the office’s work. Most of the 535 prosecutors handle violent crimes, gun and drug cases, among other street crimes that make up 80% of the caseload. The office handled 87,000 cases last year, Mr. Vance said.

But white-collar work, which generates big headlines and revenue for the office, is anything but an afterthought to Mr. Vance. White-collar cases such as securities fraud, public corruption and racketeering currently are handled by about 90 prosecutors, but “that number will go up,” he said.

Mr. Vance on Thursday announced the consolidation of two units made up of white-collar prosecutors to form the “major economic crimes bureau,” headed by a new hire, Richard Weber, who was chief of the Justice Department’s asset-forfeiture and money-laundering section. Previously, Mr. Vance hired Daniel Alonso, another former federal prosecutor with white-collar experience, to be the No. 2 prosecutor.

The district attorney’s office is continuing to venture into territory that overlaps with federal securities regulators. For example, it is investigating whether a well-known Connecticut hedge fund, **Plainfield Asset Management**, defrauded companies to which it provided financing, according to people familiar with the matter.

Mr. Vance declined to comment. Plainfield previously said it is cooperating and is confident it won’t be charged.

The new DA hopes to prosecute cases that have wide impact. For example, last year Credit Suisse Group and Lloyds Banking Group PLC reached agreements with the district attorney and federal prosecutors in which they avoided prosecution but admitted to breaking U.S. sanctions by removing, or “stripping,” wire-transfer information to conceal that Iranian entities used the banks for transactions. Probes of other unnamed banks are continuing, Mr. Vance said.

“These cases affect systemic change” in the financial industry, he said. For example, a multinational bank recently called one of his deputies, Adam Kaufmann, to report a possible stripping violation by its employees, he said.

Such settlements also are a cash cow. The office distributes the majority of proceeds to the city and state but has kept millions of dollars for its own use. In previous years, collected proceeds allowed some prosecutors to get raises during recessions, when the city budgets were tight, according to former prosecutors.

Mr. Vance declined to say how much the office has accumulated.

Eliot Spitzer, the former New York state attorney general who worked with Mr. Vance when they were assistant district attorneys under Mr. Morgenthau in the 1980s, called Mr. Vance a “very careful lawyer” who “understands business ... and is not one to act precipitously or without care.”

Mr. Vance, now a father of two, attended Yale University and Georgetown Law School before working at the district attorney’s office, where he brought murder and public-corruption cases.

He later worked in private practice in Seattle. In 2004, he returned to his native New York and was hired by a white-collar criminal defense firm after Mr. Morgenthau called the firm to recommend him, says Elkan Abramowitz, a partner. While working there, Mr. Vance helped several companies investigate their own violations, such as bribing foreign officials, and report the conduct to prosecutors, former colleagues say.

Bankers reposition listings for next quarter

By Lynn Cowan

The IPO market has gotten off to a wretched start in 2010, but bankers say they expect a pickup in activity in the months ahead.

It is a good thing there is such optimism on Wall Street, because initial-public-offering activity in the U.S. since the beginning of the year has left both issuers and investors shaking their heads.

IPO OUTLOOK

Six of the seven IPOs completed this year on American exchanges priced below their expected ranges, and the highest first-day gain came in at 6%, continuing a trend of mediocrity that began in December.

Investment bankers are looking toward the beginning of next quarter for any meaningful activity from new stocks, and say the next crop needs to be carefully selected in order to set the foundation for a more stable IPO market.

“I think the last couple of months has caused bankers to go back and scrub their backlog a little better so that their real top-tier companies will be in the next wave, and depending on how those do, we could then see the next generation of IPOs,” said Mark Connelly, head of global equity capital markets for Jefferies Group Inc.

The quality of some of the companies that have come public to date in the U.S. has been criticized, with several deals, such as **Graham Packaging** Co. and **Generac Holdings** Inc., carrying a lot of debt, and others, like Chinese realty brokerage **IFM Investments** Ltd., facing uncertain business environments.

But the broader stock market’s volatility and continued uncertainty about the global economy have also weighed on new stocks around the world, with IPOs on every continent getting postponed or pricing weakly.

Veterans of the IPO market say as tough as things may seem now, they are still better than at this point in 2009, when the IPO market had been essentially shut down for half a year.

Though earnings reports in the U.S. remain mixed, particularly with respect to top-line revenue growth, companies and analysts feel more confident forecasting results than they did 12 months ago, when it seemed that no one was sure what was ahead, says Mark Hantho, global head of equity capital markets at Deutsche Bank AG.

Mr. Hantho said while he is confident that the U.S. IPO market will be “much more vibrant” this year than last, investors remain very selective when it comes to the type of businesses they will buy and the prices they will pay for new stocks.

One IPO expected to price this week: **Anthera Pharmaceuticals** Inc., an unprofitable, venture-backed biopharmaceutical company that hasn’t received regulatory approval for any of its treatments.

Anthera’s accounting firm has questioned whether the biopharm company can continue in business, because of the amount of money it will need to keep operating; it is hoping to raise nearly $70 million through its IPO.

Look for it to list—if it can—on the Nasdaq under the symbol ANTH.

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Anglo American's profit declined 53% last year

By Jeffrey Sparshott And Guy Chazan

Anglo American PLC reported a 53% fall in full-year profit and declared no dividend for the second year in a row.

But the mining giant said it had emerged from an "unpredictable" year as a more-focused company that would benefit from rising demand for iron ore, coal and copper in emerging markets, and expects to resume dividend payments this year.

Anglo struggled early last year under the strain of debt and a global recession that depressed commodity prices. It alienated many investors when it paid no dividend for the first time since 1939. As part of an effort to regroup, Anglo ousted three top managers, restructured operations, announced staff cuts and said it would sell assets as it focuses on metals and minerals.

Anglo's decision not to reinstate the dividend sets it apart from rival miners **Xstrata** PLC and **Rio Tinto** PLC, which resumed payouts last week. In an interview, Chief Executive Cynthia Carroll defended the move, saying Anglo needed to maintain high spending on a clutch of projects that are key to its output growth in the coming years. By 2013 Anglo plans to boost production of copper by a third, iron ore by 82% and nickel by 139%, and said it expects to spend $6 billion on capital expenditures this year, up from around $4.5 billion in 2009.

Ms. Carroll highlighted progress toward meeting Anglo's targets on cost savings, staff cuts and disposals.

Anglo said it delivered $1.6 billion in cost savings last year, ahead of expectations and close to its target of $2 billion by 2011, while head count was cut by 23,400—roughly 17% of the work force. Zinc assets are formally on the block with significant buyer interest, she said.

Anglo's profit last year was $2.43 billion, compared with $5.22 billion in 2008. Underlying earnings from continuing operations was $2.14 a share, ahead of a consensus forecast of $1.99. Revenue dropped 25% to $24.64 billion.

Bloomberg drops Quadrangle

By Peter Lattman

New York City Mayor Michael Bloomberg is pulling roughly $5 billion of personal assets from **Quadrangle Group**'s asset-management arm, according to people familiar with the situation.

The move deals a blow to the New York private-equity and investment firm, which has had to deal with the departure of its co-founder Steven Rattner and an investigation by the New York state attorney general into how Quadrangle secured an investment from New York state's pension fund. On Friday, Quadrangle told clients that the team managing Mr. Bloomberg's account would be leaving. A spokesman for Quadrangle declined to comment.

Mr. Bloomberg made his fortune building media company **Bloomberg** LP before running for mayor of New York City. Two years ago Mr. Bloomberg, a friend of Mr. Rattner, awarded Quadrangle a coveted money-management mandate. The firm hired Alice Ruth, the former chief investment officer of the family foundation of **Intel** Corp. co-founder Gordon Moore, to handle the Bloomberg relationship and expand the wealth-management business.

Getty Images, Bloomberg News

Michael Bloomberg, left, and Steven Rattner

Ms. Ruth and her team of about a dozen people are expected to continue managing Mr. Bloomberg's money. One option would be to set up what is known as a family office that would exclusively service the mayor's account, these people said.

"The fact that the mayor will be hiring the same team Quadrangle put together to manage these funds shows how pleased he is with their performance, which has been excellent. He has nothing but good things to say about the job Quadrangle has done," said Jason Post, a spokesman for Mr. Bloomberg.

Mr. Rattner, a former vice chairman at investment bank **Lazard Freres**, co-founded Quadrangle with three of his partners in 2000. The firm started as a media-focused private-equity and advisory firm, but Mr. Rattner had broader ambitions. Along with hiring Ms. Ruth and her team, he started two hedge funds.

The effort was unsuccessful. Last year, a $3 billion distressed debt fund, now called **Monarch Alternative Capital**, split from the firm and a smaller hedge fund.

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Judge defers on delay in civil case

Prosecutors, defense lawyers push for Galleon criminal trial to be first; a 'weighty reason'

By Chad Bray

NEW YORK—A federal judge held off on making a decision on whether to delay a civil insider-trading case against **Galleon Group** founder Raj Rajaratnam and others so that criminal trials in the matter could proceed first.

At a hearing Friday, the U.S. Attorney's Office in Manhattan, the Securities & Exchange Commission and lawyers for Mr. Rajaratnam and the other defendants asked U.S. District Judge Jed S. Rakoff to delay a civil case brought by the SEC.

"I find it a little strange, not completely, that the SEC, which brought charges with so much fanfare, could say not yet, not now, not for a very long time," Judge Rakoff said.

Traditionally, federal criminal cases are allowed to go to trial first, with any civil actions by the SEC or other regulators pushed back until after the criminal case is completed.

However, Judge Rakoff had been insistent that the SEC case before him go to trial Aug. 2.

The judge said the request by all parties to put off the civil case was a "weighty reason" to consider a delay, but he wanted to take additional time to decide.

A separate criminal trial against Mr. Rajaratnam and Danielle Chiesi, a former consultant to **New Castle Funds** LLC, is set for trial in October.

U.S. District Judge Richard J. Holwell, who is overseeing Mr. Rajaratnam's criminal case, said this week that he preferred that the criminal case go first.

During Friday's hearing, Assistant U.S. Attorney Jonathan Streeter said allowing the criminal trial to go first would allow the issues to be litigated fully and might override the need for a later civil trial.

He also expressed concern that prosecutors mightn't be able to force cooperating witnesses in the criminal case, who are civil defendants in the SEC case, to testify in the civil trial.

William White, a lawyer for Mr. Rajaratnam, said he expected a number of witnesses, as many as 25, would exercise their Fifth Amendment right against self-incrimination if the SEC case were to go first, including witnesses cooperating with prosecutors and witnesses who might be friendly to the defense.

However, Judge Rakoff said he believed prosecutors had the ability to instruct cooperating witnesses to testify in the civil case under threat of violating their cooperation agreement. As part of the sentencing process, federal prosecutors often write letters on behalf of cooperating witnesses urging a judge to reduce their sentence in reflection of their cooperation.

Prosecutors can decline to write such a letter if they believe a witness didn't provide "substantial assistance" as part of that cooperation.

Mr. Rajaratnam and Ms. Chiesi have been charged in a 19-count indictment with conspiracy and securities fraud. They have denied wrongdoing.

Prosecutors from the U.S. Attorney's office in Manhattan have alleged that Mr. Rajaratnam was at the center of an insider-trading ring that generated millions of dollars in improper trades. Prosecutors have claimed the scheme topped $49 million.

In total, 21 people have been charged criminally in an insider-trading probe by the U.S. Attorney's Office. Nine have pleaded guilty to criminal charges.

Bloomberg News

Danielle Chiesi, seen leaving court Wednesday, faces a 19-count criminal indicitment along with the civil case.

Hong Kong prepares for a yuan world

Continued from page 21

financial center, Hong Kong is working overtime to fashion itself into an essential player in what is sure to be a lucrative business: yuan-denominated financial services.

Doing so before a fully ascendant Shanghai can corner the market would give Hong Kong an essential head start, while bolstering Hong Kong's claim as Asia's premier financial hub.

For months, government officials and regulators at the Hong Kong Monetary Authority and Securities and Futures Commission have been laying the regulatory foundation for a wide array of yuan services and products, from corporate bank accounts for trade settlements to corporate bonds denominated in yuan.

Local officials, meanwhile, have been quietly sounding out financial institutions on the idea of quoting Hong Kong shares in Chinese yuan and even settling transactions in the mainland's currency—a step toward the possible trading of yuan-denominated shares in the city. Creating separate products denominated in yuan and Hong Kong dollars is necessary because of China's grip on flows of its currency across its borders. Beijing is keen to expand the use of the yuan around the world, motivated by a desire to reduce its dependency on the U.S. dollar and to encourage trading partners to use the yuan.

Last year, China's cabinet set plans to make Shanghai an international financial center by 2020 to boost its onshore financial-services industry, increase its oversight of financial services and generate more local tax revenue.

"Shanghai is growing into a full-fledged international financial center, and we're glad to see that happen," says Julia Leung, Hong Kong's undersecretary for financial services and the treasury and a key player in efforts to more closely bind Hong Kong and mainland China's financial systems.

At the same time, she adds, "we have to move very fast to capitalize on every pilot or experiment that they're working on to liberalize their capital accounts further." That includes winning a role for Hong Kong in Beijing's decision last July to allow firms to settle cross-border trade transactions in yuan. Earlier this month, the HKMA expanded the scope of that program to allow service transactions, like legal and medical bills, to be settled in yuan here.

Companies, including those not from the mainland, that are seeking project financing now can apply for yuan-denominated loans in Hong Kong, and can issue yuan-denominated bonds here to finance projects and trade transactions. (Any fund raising that would require remittance to mainland China would still require Beijing's approval.)

The purpose of all these moves: to establish Hong Kong as a place where yuan deals can get done.

"We already have a good head start with the [yuan] business, from the banking and the lending to trade settlement and bond issuance," Ms. Leung says. By building up the liquidity of yuan in the city, Hong Kong's next move is to keep those yuan here with a wider range of investment products.

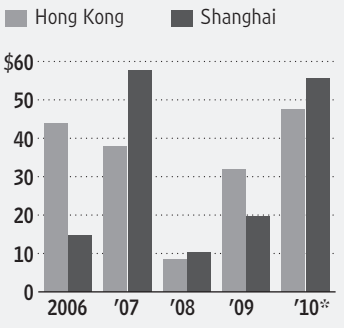
The jury is still out on whether this will all work. Shanghai's potential is formidable; even without an international board, Shanghai is expected to surpass Hong Kong—last year's global IPO leader—in new equity listings this year, according to estimates by Ernst & Young. In 2007, Shanghai beat out Hong Kong as well.

Stock-exchange operator **Hong Kong Exchanges & Clearing** Ltd., known as HKEx, is well aware of Shanghai's growing pull. "HKEx considers it is a natural trend for the mainland to introduce an international board because of the continued development of the mainland and its markets," an HKEx spokeswoman said.

"To win the continuous support from market users, including investors, HKEx will continue to improve its services and competitiveness."

Back and forth

Proceeds raised on new IPOs, volume in billions



*Forecast
Sources: Dealogic, Ernst & Young (2010 forecast)

Blackstone reaches deal on Hilton debt

By Peter Lattman And Lingling Wei

Blackstone Group reached an agreement to restructure the balance sheet of **Hilton Worldwide** as it looks to improve the fortunes of its single largest investment.

Hilton's lenders and Blackstone are finalizing a deal that would cut its $20 billion debt load by about $4 billion, according to two people familiar with the negotiations. The agreement calls for Blackstone's funds to contribute $800 million of new equity, which will be used to buy back debt at a discount. It would also extend the maturity of some debt issues, these people said.

The restructuring will help shore up Hilton's finances as it struggles through a downturn in the hotel industry. Without a restructuring, Blackstone could have been forced to sell Hilton assets to cover its roughly $900 million in interest payments, according to the analysts.

A Blackstone spokesman declined to comment.

A number of large leveraged buyouts—walloped by the economy and large debt loads—have managed to stave off default over the past year by restructuring their balance sheets. They have been helped by high-yield markets, which have proven eager to snap up new debt of even the weakest credits.

Freescale Semiconductor Inc., the computer-chip maker owned by Blackstone and three other private-equity firms, was expected to close Friday on a $750 million bond sale that will extend maturities on its debt.

Talks with Hilton's lenders have been contentious and dragged on for at least four months, according to several people involved. Roughly $4 billion of Hilton debt is held by the Federal Reserve, through a fund called Maiden Lane, which acquired the position from Bear Stearns Cos. when it brokered the collapsed investment bank's sale to J.P. Morgan Chase & Co.

Hilton is a poster child for overpriced acquisitions of the era. In July 2007 Blackstone agreed to pay $26 billion for the storied hotel chain. The firm's funds and co-investors put up $5.6 billion in equity in the deal and borrowed $20 billion in debt from a group of seven banks. The banks sold some of the debt but ended up keeping much of it on their books after debt markets closed later that summer.

A collapse of the business-travel market has hit Hilton hard. Blackstone has written down the value of its equity investment by about two-thirds, according to people familiar with the firm.

The firm's real-estate unit has gotten more active after a long fallow period. In September it acquired 50% of Broadgate, the largest portfolio of office buildings in London. And it's considering joining **Simon Property Group** Inc.'s bid to buy bankrupt **General Growth Properties** Inc., according to people involved in that deal.

Separately on Friday, federal prosecutors in Manhattan acknowledged for the first time in a court filing that Hilton is under criminal investigation related to the alleged theft of confidential documents from rival **Starwood Hotels & Resorts**. A Hilton spokeswoman said it continues to cooperate with the U.S. government's investigation.

'The bull run in sugar is over' — most likely

By Tom Sellen

A renewed run-up in world raw-sugar prices to test the 29-year high hit earlier this month is looking increasingly unlikely.

Low output from India, Mexico and No. 1 producer Brazil, a weak U.S. dollar, and a boom in speculative interest in commodities all conspired to send the front-month raw-sugar contract on Feb. 1 to 30.40 cents a pound, the highest since the week before President Reagan's first inauguration. But futures have dropped 12% since the start of the month as the dollar firmed and forecasts for a rise in global supplies seeped into the market.

COMMODITIES MARKETS

Although March sugar on ICE Futures U.S. settled Friday at 26.80 cents a pound, up on the day as the dollar trimmed much of its overnight gains, further losses may be on the horizon.

"I believe the bull run in sugar is over," said James Cordier, analyst and president of Liberty Trading Group in Tampa, Fla. Mr. Cordier said sugar prices over the next month or two could slip as low as 22 cents a pound, the lowest since mid-December.

The International Sugar Organization said Thursday that global sugar output for the 2009-10 crop year is expected to fall 9.4 million tons short of demand, estimated at 166.6 million tons for the same period. Looking ahead to 2010-11, however, the ISO said the world sugar balance may return to a small surplus of about one million tons, leading many in the market to look for further price declines.

Indian sugar production suffered during back-to-back years of paltry monsoon rains, turning the world's biggest sugar consumer and No. 2 producer into a net importer.

Betting on another dry monsoon season in India would be risky, said Spencer Patton, analyst and chief executive at Steel Vine Investments in Chicago, who forecasts sugar futures will drop to 22 cents to 23 cents a pound.

Last week, the Indian Sugar Mills Association projected the country would produce about 23 million to 24 million metric tons of sugar in the coming 2010-11 crop year—about half again as much as the past year's output—as farmers take advantage of high world prices and plant more cane. Meanwhile, Brazilian sugar will begin hitting the market in the next month or two, meaning there will be increased hedging pressure as end-users attempt to lock in lower prices as supplies begin to loosen up, he said.

James Cassidy, analyst and senior vice president, Sugar Group, at Newedge in New York, sees it differently. The global sugar deficit is centered mainly in the white refined-sugar market traded in London, and raw sugar prices will likely be dragged higher again as buyers of white sugar attempt to fill their needs, he said.

Asia declines after Fed move; Nikkei off 2.1%

By Shri Navaratnam And Philip Vahn

Stocks in Hong Kong and Japan fell more than 2% Friday as Asian markets reacted to the U.S. Federal Reserve's decision to raise its discount rate.

Stocks were tentative in early trading, but the fall accelerated as shares tied to the economic cycle declined and gold prices fell amid rising expectations that an increase in the Fed's main policy rate could follow sooner than many had anticipated.

ASIAN-PACIFIC STOCKS

Japan's Nikkei Stock Average of 225 companies fell 2.1% to 10123.58, leaving it up 0.3% for the week.

The real-estate sector was easily the worst performer, falling 3.8%. **K.K. daVinci Holdings** closed down 19% after remaining ask-only throughout the day amid worries over its assets and liabilities and its lowered fiscal-year earnings forecast. Industry bellwether **Mitsubishi Estate** dropped 4.3%.

Among other big losers, **Pacific Metals** fell 3.4% and **Hitachi Construction Machinery** shrank 3.3%. **Trend Micro** slid 5.7% after releasing its full-year earnings and January-March forecast.

Inpex slipped 2.3% as commodity shares fell around the region. In Sydney, **Rio Tinto** fell 1.5% and **Lihir Gold** lost 2.5%.

In Hong Kong, the Hang Seng Index fell below 20000, down 2.6% at 19894.02.

Analysts said they expect the index to find strong support at 19000, though they that could largely depend on the mainland Chinese markets when they reopen after the weeklong Lunar New Year holiday.

China Shenhua Energy lost 3.9%, **China Mobile** slid 2.8% and **Industrial & Commercial Bank of China** dropped 3%.

Property developers fell on concerns that interest rates may track U.S. rates higher. **Sun Hung Kai Properties** fell 2.7% and **Henderson Land Development** slid 4.2%.

Analysts expect commodities and energy companies to face downward pressure, with the U.S. dollar likely to appreciate further because of tightening monetary policies.

FUND SCORECARD

U.S. Small-Cap Equity

Funds that invest primarily in the equities of small-cap U.S. companies. At least 75% of total assets are invested in equities. Ranked on % total return (dividends reinvested) in U.S. dollars for one year ending February 19, 2010

Leading 10 Performers

FUND RATING *	FUND NAME	FUND MGM'T CO.	CURR.	LEGAL BASE	% Return in $US ** YTD	1-YR	2-YR	5-YR
3	**Gartmore Fledgling Trust**	Gartmore Investment Ltd.	GBP	United Kingdom	**-4.76**	122.09	-1.72	-1.49
2	**Manulife GF US Small Cap Eq AA**	Manulife Global Fund	USD	Luxembrg	**5.34**	80.15	-6.90	NS
2	**Janus US Venture A EUR**	Janus Capital Funds Plc	EUR	Ireland	**-5.70**	71.65	-14.08	1.38
3	**Danske Invest US Small Cap Value K**	Sampo Rahastoyhtiö Oy	EUR	Finland	**0.91**	68.89	0.83	1.00
3	**Artemis Alpha Trust PLC**	Artemis Investment Management Ltd	GBP	United Kingdom	**-4.58**	64.74	-2.81	2.54
3	**SEI GMF US Sm Companies Instl GBP**	SEI Global Master Fund Plc.	GBP	Ireland	**1.52**	62.68	-4.54	1.44
NS	**F&C US Smaller Companies**	F&C Fund Management Ltd	GBP	United Kingdom	**-0.15**	60.94	3.55	2.95
3	**Vanguard US Discoveries Inv Acc**	Vanguard Investment Europe Sa	USD	Ireland	**2.72**	60.17	-0.50	1.95
NS	**JPMorgan US Discovery IT ORD**	JPMorgan Asset Management (UK) Limited	GBP	United Kingdom	**-0.11**	59.90	-8.54	-3.65
3	**F&C US Smaller Companies A**	F&C Management Limited	USD	Luxembrg	**-0.90**	59.76	2.12	1.85

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA-not available due to incomplete data;
NS-fund not in existence for entire period

Source: Morningstar, Ltd
1 Oliver's Yard, 55-71 City Road
London EC1Y 1HQ United Kingdom
www.morningstar.co.uk; **Email**: mediaservice@morningstar.com
Phone: +44 (0)203 107 0038; **Fax**: +44 (0)203 107 0001

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
AHW CAPITAL MANAGEMENT									
Tel (+49) 1805 - 23 82 82									
www.ahw-capital.com									
AHW Top-Div.Int.	GL	EQ	LUX	02/18	EUR	49.80	-8.8	28.6	-23.8
ALLIANCE BERNSTEIN									
www.alliancebernstein.com/investments Tel. +800 2263 8637									
Am Eq Blend A	OT	OT	LUX	02/18	USD	10.25	-1.2	42.2	-10.9
Am Eq Blend B	US	EQ	LUX	02/18	USD	9.61	-1.4	40.9	-11.8
Am Growth A	US	EQ	LUX	02/18	USD	30.35	-2.8	40.7	-1.0
Am Growth AX	US	EQ	LUX	02/18	USD	32.78	-2.8	41.5	-0.4
Am Growth B	US	EQ	LUX	02/18	USD	25.48	-3.0	39.3	-2.0
Am Growth C	US	EQ	LUX	02/18	USD	27.44	-2.9	40.1	-1.4
Am Growth I	US	EQ	LUX	02/18	USD	33.67	-2.7	41.8	-0.2
Am Income A	US	BD	LUX	02/18	USD	8.41	-0.2	25.1	5.9
Am Income A2	OT	OT	NA	02/18	HKD	148.74	0.6	25.7	6.2
Am Income A2	US	BD	LUX	02/18	USD	19.15	0.6	25.7	6.2
Am Income AT	OT	OT	NA	02/18	HKD	65.40	0.6	25.8	6.2
Am Income AT	US	BD	LUX	02/18	USD	8.42	0.6	25.8	6.2
Am Income B	US	BD	LUX	02/18	USD	8.41	-0.2	24.2	5.1
Am Income B2	OT	OT	NA	02/18	HKD	128.08	0.5	24.8	5.4
Am Income B2	US	BD	LUX	02/18	USD	16.49	0.5	24.8	5.4
Am Income BT	OT	OT	NA	02/18	HKD	65.71	0.0	24.2	5.2
Am Income BT	US	BD	LUX	02/18	USD	8.46	0.0	24.2	5.2
Am Income C	US	BD	LUX	02/18	USD	8.41	-0.2	24.5	5.4
Am Income C2	US	BD	LUX	02/18	USD	24.53	0.5	25.2	5.7
Am Income I	US	BD	LUX	02/18	USD	8.41	-0.2	25.8	6.6
Am Value A	US	EQ	LUX	02/18	USD	8.56	0.4	29.7	-10.3
Am Value B	US	EQ	LUX	02/18	USD	7.87	0.3	28.4	-11.2
Am Value C	US	EQ	LUX	02/18	USD	8.55	0.2	29.0	-10.7
Am Value I	US	EQ	LUX	02/18	USD	9.22	0.4	30.8	-9.6
Emg Mkts Debt A	GL	BD	LUX	02/18	USD	15.45	-0.7	44.8	7.7
Emg Mkts Debt A2	GL	BD	LUX	02/18	USD	20.14	0.1	45.7	8.1
Emg Mkts Debt AT	GL	BD	LUX	02/18	USD	15.54	-0.4	45.0	7.8
Emg Mkts Debt B	GL	BD	LUX	02/18	USD	15.45	-0.7	43.6	6.7
Emg Mkts Debt B2	GL	BD	LUX	02/18	USD	19.37	0.1	44.3	7.0
Emg Mkts Debt BT	GL	BD	LUX	02/18	USD	15.52	-0.4	43.6	6.7
Emg Mkts Debt C	GL	BD	LUX	02/18	USD	15.45	-0.7	44.3	7.2
Emg Mkts Debt C2	GL	BD	LUX	02/18	USD	19.78	0.1	45.1	7.6
Emg Mkts Debt I	GL	BD	LUX	02/18	USD	15.45	-0.7	45.5	8.2
Emg Mkts Growth A	GL	EQ	LUX	02/18	USD	33.11	-4.4	80.1	-11.9
Emg Mkts Growth B	GL	EQ	LUX	02/18	USD	28.02	-4.6	78.4	-12.8
Emg Mkts Growth C	GL	EQ	LUX	02/18	USD	28.68	-4.5	79.4	-12.3
Emg Mkts Growth I	GL	EQ	LUX	02/18	USD	36.74	-4.3	81.6	-11.2
Eur Growth A	OT	OT	LUX	02/18	EUR	9.43	-0.6	31.9	-13.8
Eur Growth A	OT	OT	LUX	02/18	EUR	6.99	-0.6	31.9	-13.8
Eur Growth B	OT	OT	LUX	02/18	EUR	6.28	-0.6	30.6	-14.6
Eur Growth B	OT	OT	LUX	02/18	USD	8.47	-0.6	30.6	-14.6
Eur Growth C	EU	EQ	LUX	02/18	EUR	5.29	-0.8	31.3	-14.2
Eur Growth I	OT	OT	LUX	02/18	USD	10.29	-0.5	32.9	-13.1
Eur Growth I	OT	OT	LUX	02/18	EUR	7.63	-0.5	32.9	-13.1
Eur Income A	OT	OT	LUX	02/18	EUR	6.65	0.8	41.5	6.2
Eur Income A	OT	OT	LUX	02/18	USD	8.97	0.8	41.5	6.2
Eur Income A2	OT	OT	LUX	02/18	EUR	13.07	1.6	42.1	6.5
Eur Income A2	OT	OT	LUX	02/18	USD	17.62	1.6	42.1	6.5
Eur Income AT	EU	BD	LUX	02/18	EUR	6.66	1.7	42.2	6.5
Eur Income B	OT	OT	LUX	02/18	EUR	6.65	0.8	40.8	5.5
Eur Income B	OT	OT	LUX	02/18	USD	8.97	0.8	40.8	5.5
Eur Income B2	OT	OT	LUX	02/18	EUR	12.15	1.5	41.1	5.7
Eur Income B2	OT	OT	LUX	02/18	USD	16.38	1.5	41.1	5.7
Eur Income BT	EU	BD	LUX	02/18	EUR	6.66	1.1	40.8	5.5
Eur Income C	OT	OT	LUX	02/18	EUR	6.65	0.8	41.1	5.8
Eur Income C	OT	OT	LUX	02/18	USD	8.97	0.8	41.1	5.8
Eur Income C2	OT	OT	LUX	02/18	EUR	13.02	1.5	41.5	6.0
Eur Income C2	OT	OT	LUX	02/18	USD	17.56	1.5	41.5	6.0
Eur Income I	OT	OT	LUX	02/18	EUR	6.65	0.8	42.1	6.8
Eur Income I	OT	OT	LUX	02/18	USD	8.97	0.8	42.1	6.8
Eur Strat Value A	OT	OT	LUX	02/18	EUR	8.33	-2.3	33.9	-17.1
Eur Strat Value A	OT	OT	LUX	02/18	USD	11.23	-2.3	33.9	-17.1
Eur Strat Value I	OT	OT	LUX	02/18	EUR	8.54	-2.3	34.9	-16.3
Eur Strat Value I	OT	OT	LUX	02/18	USD	11.52	-2.3	34.9	-16.3
Eur Value A	OT	OT	LUX	02/18	EUR	8.95	-2.7	36.9	-13.9
Eur Value A	OT	OT	LUX	02/18	USD	12.07	-2.7	36.9	-13.9
Eur Value B	OT	OT	LUX	02/18	USD	11.08	-2.8	35.4	-14.7
Eur Value B	OT	OT	LUX	02/18	EUR	8.22	-2.8	35.4	-14.7
Eur Value C	OT	OT	LUX	02/18	EUR	8.65	-2.7	36.2	-14.3
Eur Value C	OT	OT	LUX	02/18	USD	11.66	-2.7	36.2	-14.3
Eur Value I	OT	OT	LUX	02/18	USD	13.96	-2.5	38.0	-13.2
Eur Value I	OT	OT	LUX	02/18	EUR	10.35	-2.5	38.0	-13.2
Gl Balanced (Euro) A	OT	OT	LUX	02/18	USD	15.44	-0.2	28.2	-8.6
Gl Balanced (Euro) B	OT	OT	LUX	02/18	USD	15.02	-0.3	27.0	-9.5
Gl Balanced (Euro) C	OT	OT	LUX	02/18	USD	15.32	-0.2	27.9	-8.8
Gl Balanced (Euro) I	OT	OT	LUX	02/18	USD	15.74	-0.1	NS	NS
Gl Balanced A	US	BA	LUX	02/18	USD	16.19	-1.8	33.5	-8.8
Gl Balanced B	US	BA	LUX	02/18	USD	15.37	-1.9	32.2	-9.7
Gl Balanced C	OT	OT	LUX	02/18	USD	15.94	-1.8	33.1	-9.1
Gl Balanced C	OT	OT	LUX	02/18	EUR	11.82	-1.8	33.1	-9.1
Gl Balanced I	US	BA	LUX	02/18	USD	16.81	-1.6	34.5	-8.1
Gl Bond A	US	BD	LUX	02/18	USD	9.31	0.8	14.5	4.7
Gl Bond A2	OT	OT	NA	02/18	HKD	125.98	1.3	15.0	4.9
Gl Bond A2	US	BD	LUX	02/18	USD	16.22	1.3	15.0	4.9
Gl Bond AT	OT	OT	LUX	02/18	HKD	72.31	1.0	14.5	4.7
Gl Bond AT	US	BD	LUX	02/18	USD	9.31	1.0	14.5	4.7
Gl Bond B	US	BD	LUX	02/18	USD	9.31	0.8	13.5	3.7
Gl Bond B2	OT	OT	NA	02/18	HKD	110.14	1.1	13.7	3.8
Gl Bond B2	US	BD	LUX	02/18	USD	14.18	1.1	13.7	3.8
Gl Bond BT	OT	OT	LUX	02/18	HKD	72.62	1.0	13.6	3.8
Gl Bond BT	US	BD	LUX	02/18	USD	9.35	1.0	13.6	3.8
Gl Bond C	US	BD	LUX	02/18	USD	9.31	0.8	14.0	4.3
Gl Bond C2	US	BD	LUX	02/18	USD	14.07	1.3	14.5	4.4
Gl Bond I	US	BD	LUX	02/18	USD	9.31	0.8	15.1	5.3
Gl Conservative A	US	BA	LUX	02/18	USD	14.81	-0.4	21.0	-3.0
Gl Conservative A2	US	BA	LUX	02/18	USD	16.86	-0.4	20.9	-3.0
Gl Conservative B	US	BA	LUX	02/18	USD	14.78	-0.5	19.8	-4.0
Gl Conservative B2	US	BA	LUX	02/18	USD	16.00	-0.6	19.8	-4.0
Gl Conservative C	US	BA	LUX	02/18	USD	14.79	-0.5	20.4	-3.4
Gl Conservative C2	US	BA	LUX	02/18	USD	16.48	-0.5	20.5	-3.4
Gl Conservative I	US	BA	LUX	02/18	USD	14.89	-0.3	22.0	-2.3
Gl Eq Blend A	GL	EQ	LUX	02/18	USD	11.21	-3.9	45.8	-18.5
Gl Eq Blend B	GL	EQ	LUX	02/18	USD	10.51	-4.0	44.4	-19.3
Gl Eq Blend C	GL	EQ	LUX	02/18	USD	11.01	-3.9	45.3	-18.8
Gl Eq Blend I	GL	EQ	LUX	02/18	USD	11.84	-3.7	47.1	-17.8
Gl Growth A	GL	EQ	LUX	02/18	USD	40.52	-3.3	40.9	-18.9
Gl Growth B	GL	EQ	LUX	02/18	USD	33.78	-3.4	39.5	-19.8
Gl Growth C	GL	EQ	LUX	02/18	USD	38.86	-3.4	40.3	-19.3
Gl Growth I	GL	EQ	LUX	02/18	USD	45.05	-3.2	42.1	-18.3
Gl High Yield A	US	BD	LUX	02/18	USD	4.32	-0.2	58.7	6.0
Gl High Yield A2	OT	OT	NA	02/18	HKD	72.47	0.8	59.2	6.2
Gl High Yield A2	US	BD	LUX	02/18	USD	9.33	0.8	59.2	6.2
Gl High Yield AT	US	BD	LUX	02/18	USD	4.29	0.9	59.2	6.2
Gl High Yield AT	OT	OT	NA	02/18	HKD	33.32	0.9	59.2	6.2
Gl High Yield B	US	BD	LUX	02/18	USD	4.32	-0.2	56.9	4.7
Gl High Yield B2	OT	OT	NA	02/18	HKD	116.35	0.7	57.7	5.1
Gl High Yield B2	US	BD	LUX	02/18	USD	14.98	0.7	57.7	5.1
Gl High Yield BT	OT	OT	NA	02/18	HKD	33.86	0.0	56.7	4.8
Gl High Yield BT	US	BD	LUX	02/18	USD	4.36	0.0	56.7	4.8
Gl High Yield C	US	BD	LUX	02/18	USD	4.32	-0.2	57.9	5.4
Gl High Yield C2	US	BD	LUX	02/18	USD	13.83	0.8	58.6	5.7
Gl High Yield I	US	BD	LUX	02/18	USD	4.32	-0.2	59.7	6.7
Gl Thematic Res. A	OT	OT	LUX	02/18	USD	14.37	-2.4	78.7	0.2
Gl Thematic Res. B	OT	OT	LUX	02/18	USD	12.55	-2.6	76.8	-0.8
Gl Thematic Res. I	OT	OT	LUX	02/18	USD	16.03	-2.4	79.9	1.0
Gl Value A	GL	EQ	LUX	02/18	USD	10.66	-4.3	51.2	-17.9
Gl Value B	GL	EQ	LUX	02/18	USD	9.78	-4.5	49.8	-18.7
Gl Value C	GL	EQ	LUX	02/18	USD	10.35	-4.4	50.7	-18.3
Gl Value I	GL	EQ	LUX	02/18	USD	11.34	-4.3	52.4	-17.3
Greater China A	AS	EQ	LUX	02/18	USD	37.89	-5.3	59.5	-12.5
Greater China B	AS	EQ	LUX	02/18	USD	33.48	-5.5	57.9	-13.4
Greater China C	AS	EQ	LUX	02/18	USD	37.39	-5.4	58.8	-12.9
India Growth A	OT	OT	LUX	02/18	USD	121.82	-4.0	NS	NS
India Growth AX	OT	OT	LUX	02/18	USD	106.52	-4.0	80.8	-6.5
India Growth B	OT	OT	LUX	02/18	USD	127.45	-4.1	NS	NS
India Growth BX	OT	OT	LUX	02/18	USD	90.93	-4.1	78.9	-7.4
India Growth I	EA	EQ	LUX	02/18	USD	110.46	-3.9	81.6	-6.1
Int'l Health Care A	OT	EQ	LUX	02/18	USD	138.93	1.1	21.1	-5.2
Int'l Health Care B	OT	EQ	LUX	02/18	USD	117.03	0.9	19.9	-6.1
Int'l Health Care C	OT	EQ	LUX	02/18	USD	133.07	1.0	20.5	-5.6
Int'l Health Care I	OT	EQ	LUX	02/18	USD	151.96	1.2	22.1	-4.4
Int'l Technology A	OT	EQ	LUX	02/18	USD	106.30	-3.7	54.8	-5.1
Int'l Technology B	OT	EQ	LUX	02/18	USD	91.99	-3.8	53.3	-6.0
Int'l Technology C	OT	EQ	LUX	02/18	USD	102.67	-3.7	54.2	-5.5
Int'l Technology I	OT	EQ	LUX	02/18	USD	119.32	-3.6	56.1	-4.3
Japan Eq Blend A	JP	EQ	LUX	02/18	JPY	5945.00	-1.3	29.8	-19.0
Japan Eq Blend B	JP	EQ	LUX	02/18	JPY	5729.00	-1.4	28.5	-19.8
Japan Eq Blend C	JP	EQ	LUX	02/18	JPY	5846.00	-1.4	29.3	-19.3
Japan Growth A	JP	EQ	LUX	02/18	JPY	5647.00	-3.9	18.4	-20.4
Japan Growth B	JP	EQ	LUX	02/18	JPY	5442.00	-4.0	17.2	-21.2
Japan Growth C	JP	EQ	LUX	02/18	JPY	5554.00	-3.9	17.8	-20.8
Japan Strat Value A	JP	EQ	LUX	02/18	JPY	6205.00	1.4	41.6	-17.9
Japan Strat Value B	JP	EQ	LUX	02/18	JPY	5985.00	1.3	40.2	-18.7
Japan Strat Value C	JP	EQ	LUX	02/18	JPY	6096.00	1.3	40.9	-18.3
Real Estate Sec. A	OT	EQ	LUX	02/18	USD	13.84	-3.6	68.6	-13.7
Real Estate Sec. B	OT	EQ	LUX	02/18	USD	12.63	-3.7	66.8	-14.6
Real Estate Sec. I	OT	EQ	LUX	02/18	USD	14.89	-3.4	70.0	-13.0
Short Mat Dollar A	US	BD	LUX	02/18	USD	7.27	0.0	13.8	-5.0
Short Mat Dollar A2	US	BD	LUX	02/18	USD	9.84	0.5	14.0	-4.9
Short Mat Dollar AT	US	BD	LUX	02/18	USD	7.27	0.3	13.8	-5.1
Short Mat Dollar B	US	BD	LUX	02/18	USD	7.27	0.0	13.4	-5.4
Short Mat Dollar B2	US	BD	LUX	02/18	USD	9.79	0.5	13.6	-5.3
Short Mat Dollar BT	OT	OT	LUX	02/18	USD	7.28	0.1	NS	-5.7
Short Mat Dollar C	US	BD	LUX	02/18	USD	7.27	0.0	13.4	-5.4
Short Mat Dollar C2	US	BD	LUX	02/18	USD	13.84	0.5	13.5	-5.3
Short Mat Dollar I	US	BD	LUX	02/18	USD	7.27	0.0	14.4	-4.4

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
ALEXANDRA INVESTMENT MANAGEMENT									
Tel: +1 212 301 1800 Fax: +1 212 301 1810									
Alexandra Convertible Bond Fund I, Ltd. (Class A)	OT	OT	VGB	12/31	USD	1691.35	74.6	74.6	NS
CREDIT PACIFIC ASSET MANAGMENT									
www.creditpacific.com									
CPS-Master Priv Fund	GL	OT	WSM	02/17	USD	105.28	5.3	27.9	22.3
PLATINUM CAPITAL MANAGEMENT									
Tel: +44 207 024 9840, www.platinumfunds.net									
Platinm-All Star	OT	OT	CYM	11/30	USD	96.31	14.7	11.9	-12.2
Platinm-All Weather	OT	OT	USA	10/31	USD	129.92	2.4	3.2	3.8
Platinm-Dynasty	OT	OT	USA	12/31	USD	116.00	12.9	12.9	-29.1
Platinm-Emancipation	OT	OT	USA	12/31	USD	93.12	24.4	24.4	-8.6
Platinm-Equity Plus	OT	OT	USA	05/29	USD	35.02	-18.2	-63.7	-45.6
Platinm-Gbl Dividend	OT	OT	CYM	12/31	USD	62.80	37.2	37.2	-26.9
Platinm-Nordic	OT	OT	CYM	12/31	SEK	617.36	13.2	13.2	-16.2
Platinm-Premier	OT	OT	CYM	12/31	USD	21.20	-55.9	-66.0	-44.3
Platinm-Turnberry	OT	OT	USA	12/31	USD	60.07	NS	NS	-29.4
SUPERFUND ASSET MANAGEMENT GMBH									
For info about open funds, contact info@superfund.com and www.superfund.com									
**Closed for New Investments*									
Superfund Cayman*	OT	OT	CYM	02/16	USD	33.82	-17.1	-59.4	-14.9
Superfund GCT USD*	GL	EQ	LUX	02/16	USD	1886.00	-14.1	-48.6	-11.1
Superfund Green Gold A (SPC)	OT	OT	CYM	02/16	USD	888.59	-7.9	-26.0	-2.5
Superfund Green Gold B (SPC)	OT	OT	CYM	02/16	USD	814.96	-12.9	-41.6	-9.4
Superfund Q-AG*	OT	OT	AUT	02/16	EUR	6016.00	-9.1	NS	-3.0
WINTON CAPITAL MANAGEMENT LTD									
Tel: +44 (0)20 7610 5350 Fax: +44 (0)20 7610 5301									
Winton Evolution EUR Cls H	OT	OT	CYM	12/31	EUR	945.08	NS	NS	NS
Winton Evolution GBP Cls G	OT	OT	CYM	12/31	GBP	949.08	NS	NS	NS
Winton Evolution USD Cls F	OT	OT	CYM	12/31	USD	1199.12	-5.4	-5.4	2.0
Winton Futures EUR Cls C	OT	OT	VGB	01/29	EUR	191.46	-2.7	-8.1	4.3
Winton Futures GBP Cls D	OT	OT	VGB	01/29	GBP	207.19	-2.7	-7.6	5.2
Winton Futures JPY Cls E	OT	OT	VGB	01/29	JPY	13526.58	-2.6	-9.3	2.0
Winton Futures USD Cls B	OT	OT	VGB	01/29	USD	680.91	-2.6	-8.1	4.0
ALLIANZ GLOBAL INVESTORS KAPITALANLAGEGESELLSCHAFT									
Concentra AE	EU	EQ	DEU	02/19	EUR	49.61	-4.9	43.0	-8.0
Industria AE	EU	EQ	DEU	02/19	EUR	71.17	-0.5	36.8	-12.2
InternRent AE	EU	BD	DEU	02/19	EUR	37.21	5.7	2.5	10.6
CHARTERED ASSET MANAGEMENT PTE LTD - TEL NO: 65-6835-8866									
Fax No: 65-6835 8865, Website: www.cam.com.sg, Email: cam@cam.com.sg									
CAM-GTF Limited	AS	EQ	MUS	02/11	USD	293026.41	6.7	123.6	12.1

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Treasurys to face supply pressures

By Kelly Nolan

Investors holding short-dated Treasury securities should be prepared for further losses this week, as the government sells another hefty round of debt mostly focused on those maturities.

U.S. CREDIT MARKETS

Short-dated Treasurys, which are the most sensitive to changes in official rates, have already taken a beating this month: The two-year yield has risen from a low for the year of 0.747% in early February amid escalating worries over Greece's fiscal problems, all the way back up to 0.924% Friday, sending prices lower.

Last week, two-year yields were up nearly 0.1 percentage point, mainly in response to the increase in the Federal Reserve's emergency-lending rate. Despite the Fed's insistence that the move doesn't signal a change in monetary policy, many investors fretted that an increase in the near-zero federal-funds target rate, the main policy rate, could come sooner than expected.

The concerns over the rate outlook come as the government readies the sale of $118 billion in two-, five- and seven-year Treasury securities this week, as well as $8 billion in 30-year Treasury inflation-protected securities, or TIPS. The auctions kick off with the TIPS sale Monday, followed by a $44 billion sale of two-year notes Tuesday, a $42 billion offering of five-year notes Wednesday and a $32 billion sale of seven-year notes Thursday.

Aaron Kohl, Treasurys strategist at RBS Securities Inc., said he expects the two-year sale to go well if yields move to the upper end of their recent 0.780%-to-1.045% range. Similarly, the five-year auction would attract more buyers at the top end of its recent 2.410%-to-2.545% band, while the seven-year note sale may see better demand at the higher end of its 3.150%-to-3.340% range. Five-year yields were at 2.462% Friday and seven-year yields were at 3.234%.

As for Monday's 30-year TIPS auction, market participants expect a warm reception, even though investors haven't seen an issuance of this maturity since 2001. The U.S. government has said it would expand sales of TIPS, which are Treasury securities that help investors hedge against inflation risk, as a way to improve management of its burgeoning debt sales and also to help boost buying interest at home and overseas.

The broader TIPS market sold off after Friday's muted consumer-price data—which showed a decline in the core index, which excludes food and energy, for the first time since 1982. The 10-year break-even rate—the gap between yields on nominal Treasurys and TIPS, which signals inflation expectations—narrowed 0.05 percentage point to 2.28 points.

Japanese yields rise after Fed move on rates

By Megumi Fujikawa

TOKYO—Yields on Japanese government bonds rose Friday in the wake of the U.S. Federal Reserve's unexpected increase in its discount rate.

BOND MARKETS

The Fed's move to increase the rate it charges banks for emergency loans to 0.75%, made after U.S. markets had closed on Thursday, likely won't change the deep-rooted view in the Japanese market that the Bank of Japan will maintain accommodative monetary conditions for the foreseeable future. But market participants will examine the impact of the Fed's move on global stock markets, analysts said.

Friday, the benchmark 10-year yield firmed 0.015 percentage point to 1.33%.

Comments from Bank of Japan Gov. Masaaki Shirakawa after the market closed Thursday had limited impact. Still, the fact that the governor didn't make any comments to suggest further easing might be on the way disappointed some players, said Chotaro Morita, chief strategist at Barclays Capital.

Mr. Shirakawa indicated at a news conference that the central bank doesn't favor a specific target that would force it to take action to push inflation up to a certain level. That was translated as meaning the bank won't embark on further easing to neutralize deflation.

Focus for dollar shifts away from crisis mode

By Fabio Alves

Currency investors will shift their focus to economic growth from crisis now that the Federal Reserve has signaled that U.S. banks no longer require acute emergency support.

CURRENCY MARKETS

Until recently, any sign of strength in the economic recovery in the U.S. prompted investors to sell dollars and buy higher-yielding assets, safe in the knowledge that dollar interest rates would remain ultralow for a while.

Now that the Fed has made a tangible move away from crisis mode, investors will watch a broad array of figures—from inflation to productivity gains and jobless claims—to gauge the strength of the recovery and the speed at which excess capacity is used up.

That will determine how fast the Fed moves toward raising those interest rates that affect the broader economy. It also is a key factor in the immediate outlook for the dollar, which has already benefited from a sense that the U.S. will see rising interest rates before the euro zone, where the sovereign-debt problems continue to brew. Expectations for higher interest rates support the greenback because they make dollar-denominated assets more attractive.

The Fed emphasized that Thursday's increase in the discount rate didn't imply an increase in its short-term benchmark rates, but investors view the move as the Fed taking the lead ahead of Japan and the euro zone in tightening monetary policy.

"The Fed is taking away the crutches because the patient can walk without them," said Sophia Drossos, co-head of global foreign-exchange strategy at Morgan Stanley in New York. "Now that the recovery looks durable, the dollar will be more sensitive to positive economic news."

The links between positive economic data and a stronger dollar, which became more evident late last year, will continue to deepen, Ms. Drossos said. In December, a much better-than-expected nonfarm payrolls number boosted bets that the Fed would lift interest rates sooner than anticipated amid signs that the U.S. economy was picking up steam. But with the Fed insisting rates would remain close to zero, that trend failed to hold.

The dollar will rise further against the euro and the yen, Ms. Drossos said, with the euro ending the year at $1.24 and the dollar reaching 109 yen.

Friday in New York, the euro was at $1.3595, down from $1.3613 late Thursday. The dollar was at 91.63 yen, up from 91.27 yen.

The euro has dropped almost 6% against the dollar year-to-date, dragged down by mounting concerns over the fiscal health of weaker members of the euro zone, particularly Greece, Portugal, Spain and Italy.

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FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	—%RETURN— YTD	12-MO	2-YR
GAM Arbitrage Op	OT	OT	VGB	02/12	USD	1286.73	3.5	25.3	-6.1
GAM Asia Eq Hdg JPY Op	GL	EQ	VGB	02/15	JPY	13901.07	-10.5	54.4	2.0
GAM Asia Equity Hedge US	OT	OT	VGB	02/15	USD	259.44	-10.6	NS	3.3
GAM Asia Equity USD	OT	OT	VGB	02/18	USD	606.57	-7.2	67.6	-10.8
GAM Asia-Pacific Eq USD	OT	OT	VGB	02/16	USD	1252.87	-2.3	27.3	-11.6
GAM Com Glb Bal EUR Op	US	BA	VGB	02/15	EUR	95.23	-1.7	15.1	-7.0
GAM Com Glb Bal USD Op	US	BA	VGB	02/15	USD	125.64	-1.7	15.1	-7.0
GAM Comp Glb Eq EUR Op	GL	EQ	VGB	02/15	EUR	96.36	-4.2	21.3	-12.7
GAM Comp Glb Eq USD Op	GL	EQ	VGB	02/15	USD	122.14	-4.2	21.3	-12.7
GAM Comp Glb Gr EUR Op	US	BA	VGB	02/15	EUR	85.89	-3.1	15.3	-10.4
GAM Comp Glb Gr USD Op	US	BA	VGB	02/15	USD	123.12	-3.1	15.3	-10.4
GAM CompAbsRT EUR Op	OT	OT	VGB	09/30	EUR	141.71	9.1	0.1	-6.9
GAM CompAbsRT SGD Op	OT	OT	VGB	09/30	SGD	102.21	9.2	-0.1	-8.3
GAM CompAbsRT USD Op	OT	OT	VGB	09/30	USD	845.66	9.5	0.7	-7.0
GAM Cptal Apprec Eq Inc	US	EQ	VGB	02/12	USD	237.45	-4.5	31.5	-8.5
GAM Cross Trading Inc	OT	OT	VGB	02/15	USD	462.48	-0.7	4.5	NS
GAM Diversity CHF Op	OT	OT	VGB	02/15	CHF	93.89	-0.4	3.4	-6.1
GAM Diversity EUR Op	OT	OT	VGB	02/15	EUR	645.98	-0.4	4.0	-4.6
GAM Diversity USD 2.5XL	OT	OT	VGB	02/08	USD	77.14	-1.5	6.4	NS
GAM Diversity USD Op	OT	OT	VGB	02/15	USD	678.55	-0.4	4.2	-5.4
GAM Dvrsty II CHF Op	OT	OT	VGB	02/15	CHF	99.05	-0.5	2.8	-6.0
GAM Dvrsty II EUR Op	OT	OT	VGB	02/15	EUR	138.21	-0.4	3.2	-4.7
GAM Dvrsty II USD Op	OT	OT	VGB	02/15	USD	209.36	-0.4	3.4	-5.3
GAM DvrstyIII EUR Op	OT	OT	VGB	02/08	EUR	114.92	-0.5	2.9	-5.1
GAM DvrstyIII USD Op	OT	OT	VGB	02/08	USD	121.37	-0.5	3.2	-5.2
GAM Euro Eq Hdg EUR Op	EU	EQ	VGB	02/15	EUR	216.19	-1.2	9.5	-3.1
GAM Euro Eq Hdg USD Op	OT	OT	VGB	02/15	USD	200.72	-1.3	10.6	-1.6
GAM European Equity USD	OT	OT	VGB	02/17	USD	272.22	-7.2	36.6	-11.6
GAM GAMCO	OT	EQ	VGB	02/16	USD	797.81	-1.6	47.5	-8.3
GAM Gb EmMkts Hdg EUROp	OT	OT	VGB	02/15	EUR	95.90	-2.0	11.0	-15.5
GAM Gb EmMkts Hdg USDOp	OT	OT	VGB	02/15	USD	101.33	-1.8	10.9	-14.7
GAM Gbl Divers USD Inc.	GL	EQ	VGB	02/15	USD	242.90	-2.8	26.6	-5.7
GAM Grtr China Eq Hdg Op	GL	EQ	VGB	02/08	USD	252.20	-12.0	93.4	18.7
GAM Intrst Trend II	GL	BD	VGB	02/15	USD	103.47	9.9	63.3	-4.3
GAM Intrst Trend Inc	OT	OT	VGB	02/15	USD	275.16	9.4	76.2	-2.4
GAM Japan Eq Hdg EUR Op	AS	EQ	VGB	02/15	EUR	120.90	3.6	14.8	-0.4
GAM Japan Eq Hdg USD Op	OT	OT	VGB	02/15	USD	124.04	1.6	17.5	-13.8
GAM Japan Eq Hdg YEN Open	AS	EQ	VGB	02/15	JPY	8542.25	1.6	18.0	-12.7
GAM Japan USD	JP	EQ	VGB	02/18	USD	1125.72	2.1	30.5	-12.1
GAM Japan YEN	JP	EQ	VGB	02/18	JPY	8959.45	1.5	31.0	-18.0
GAM Money Mkt EuroOp	EU	MM	VGB	02/17	EUR	51.15	0.1	0.1	1.5
GAM Money Mkt USD	US	MM	VGB	02/17	USD	100.01	0.1	0.0	0.6
GAM Multi-Arb EUR Op	OT	OT	VGB	02/15	EUR	112.39	1.1	1.0	-8.2
GAM Multi-Arb USD Op	OT	OT	VGB	02/08	USD	117.31	1.1	1.5	-8.7
GAM Multi-China EUR Op	OT	OT	VGB	02/08	EUR	159.49	-5.0	6.3	-2.5
GAM Multi-China USD Op	OT	OT	VGB	02/08	USD	168.13	-4.8	7.2	-2.5
GAM Multi-Emer Mkts GBP	OT	OT	VGB	02/08	GBP	127.87	-2.8	22.5	-2.4
GAM Multi-Emer Mkts USD	OT	OT	VGB	02/15	USD	637.69	-2.0	23.0	-1.0
GAM Multi-Eur EUR Op	OT	OT	VGB	02/08	EUR	264.64	-1.6	4.6	-7.3
GAM Multi-Eur II EUR Op	OT	OT	VGB	02/15	EUR	135.86	-1.8	3.8	-7.2
GAM Multi-Eur II USD Op	OT	OT	VGB	02/15	USD	111.13	-1.7	3.7	-8.2
GAM Multi-Eur USD Op	OT	OT	VGB	02/08	USD	460.58	-1.5	4.4	-8.2
GAM Multi-Nth Am EUR Special	OT	OT	VGB	02/15	EUR	133.73	-0.2	8.6	-1.8
GAM Multi-Nth Am USD Special	OT	OT	VGB	02/15	USD	217.57	-0.3	8.9	-2.0
GAM Multi-Pac EUR Op	GL	EQ	VGB	02/08	EUR	138.85	-3.2	0.6	-2.5
GAM Multi-Pac USD Op	OT	OT	VGB	02/15	USD	161.37	-2.4	1.8	-3.4
GAM Portable Dvr/S&P500	OT	OT	VGB	08/24	USD	70.11	17.7	-27.7	-22.9
GAM Selection Hdg	US	EQ	VGB	02/12	USD	2650.31	0.5	55.3	11.2
GAM Sing/Malaysia	AS	EQ	VGB	02/18	USD	2397.30	-5.1	59.7	-9.7
GAM Sterling Spe Bd Inc	OT	OT	VGB	02/15	GBP	238.27	3.6	47.6	6.3
GAM Trading EUR Inc	OT	OT	VGB	02/15	EUR	322.64	-0.8	4.1	4.3
GAM Trading USD Inc	OT	OT	VGB	02/15	USD	966.04	-0.7	4.5	3.6
GAM Trdg II IncEUR Op	OT	OT	VGB	02/15	EUR	138.01	-0.8	4.0	4.2
GAM Trdg II IncUSD Op	OT	OT	VGB	02/15	USD	313.68	-0.7	4.5	3.6
GAM Trdg IV IncEUR Op	OT	OT	VGB	02/15	EUR	145.60	-0.8	3.8	3.9
GAM Trdg IV IncUSD Op	OT	OT	VGB	02/15	USD	153.35	-0.8	4.3	3.5
GAM Trdg V IncEUR Op	OT	OT	VGB	02/08	EUR	123.78	-0.5	3.3	4.4
GAM Trdg V IncUSD Op	OT	OT	VGB	02/08	USD	129.00	-0.5	3.8	4.0
GAM TrdgIII IncEUR Op	OT	OT	VGB	02/15	EUR	155.67	-0.9	3.9	3.9
GAM TrdgIII IncUSD Op	OT	OT	VGB	02/15	USD	161.30	-0.7	4.3	3.5
GAM USDSpecBondInc	US	BD	VGB	02/15	USD	554.93	4.7	83.6	9.4
GAM Worldwide	GL	EQ	VGB	02/17	USD	2111.95	-5.1	39.9	-9.2
GAMut Investments	OT	OT	VGB	02/10	USD	7580.41	0.0	1.6	6.8

■ GAM Star Fund Plc

GAMStar-AsEqCHF Ord Ac	AS	EQ	IRL	02/17	CHF	10.70	-3.1	50.7	-11.5
GAMStar-AsEqEUR Ord Ac	AS	EQ	IRL	02/17	EUR	11.68	-2.0	53.9	-6.5
GAMStar-AsEqGBP Ord Ac	AS	EQ	IRL	02/17	GBP	1.50	-4.0	51.1	0.7
GAMStar-AsEqUSD Ord Ac	AS	EQ	IRL	02/17	USD	12.48	-7.0	66.8	-9.8
GAMStar-AsPacEqEUR Acc	AS	EQ	IRL	02/17	EUR	104.39	3.2	27.8	-8.4
GAMStar-AsPacEqEUR Inc	AS	EQ	IRL	02/17	EUR	101.03	3.2	27.8	-8.4
GAMStar-ContEurEqEUR Ac	EU	EQ	IRL	02/17	EUR	10.69	-2.8	28.9	-6.0
GAMStar-EurpEqEUR Acc	EU	EQ	IRL	02/17	EUR	179.43	-2.0	28.2	-8.3
GAMStar-EurpEqEUR Inc	EU	EQ	IRL	02/17	EUR	163.95	-2.0	28.1	-8.3
GAMStar-EurpEqUSD Acc	EU	EQ	IRL	02/17	USD	14.88	-7.0	38.7	-11.5
GAMStar-EurpEqUSD Inc	EU	EQ	IRL	02/17	USD	13.49	-7.0	38.6	-11.5
GAMStar-FrontierOppUSD Acc	GL	EQ	IRL	02/17	USD	5.57	1.5	42.4	NS
GAMStar-JpnEq EUR Acc	JP	EQ	IRL	02/17	EUR	92.14	4.8	21.0	-7.6
GAMStar-JpnEq EUR Inc	JP	EQ	IRL	02/17	EUR	92.14	4.7	21.0	-7.6
GAMStar-JpnEq JPY Acc	JP	EQ	IRL	02/17	JPY	931.70	1.2	28.5	-17.9
GAMStar-JpnEq USD Acc	JP	EQ	IRL	02/17	USD	11.33	2.0	26.4	-12.4
GAMStar-World EqUSD Acc	GL	EQ	IRL	02/17	USD	2126.87	-5.0	40.8	-8.7

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In print & online. Contact:
carson.wong@dowjones.com

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■ MANULIFE ASSET MANAGEMENT TEL:(852)2108 1110
Internet:http://www.manulife.com.hk 47/F Manulife Plaza, Causeway Bay, Hong Kong

American Growth	US	EQ	LUX	02/19	USD	15.06	-1.4	36.4	-9.3
American Growth AA	US	EQ	LUX	02/19	USD	0.87	-1.4	36.0	-6.9
Asian Equity	AS	EQ	LUX	02/19	USD	2.26	-7.7	66.3	-10.5
Asian Equity AA	AS	EQ	LUX	02/19	USD	0.73	-7.8	65.6	-10.8
Asian Sm Cap Equity AA	AS	EQ	LUX	02/19	USD	1.12	-3.7	96.3	-3.2
China Value A	AS	EQ	LUX	02/19	USD	6.43	-9.6	54.3	-7.5
China Value AA	AS	EQ	LUX	02/19	USD	2.02	-9.6	53.9	-7.7
Dragon Growth	AS	EQ	LUX	02/19	USD	1.50	-9.0	57.2	-9.2
Dragon Growth AA	OT	OT	LUX	02/19	HKD	7.28	-8.8	56.9	-10.1
Emg Eastrn Europe A	EU	EQ	LUX	02/19	USD	4.43	-4.0	124.8	-16.1
Emg Eastrn Europe AA	EU	EQ	LUX	02/19	USD	1.91	-4.0	124.5	-16.3
European Growth	EU	EQ	LUX	02/19	USD	8.45	-7.7	57.3	-16.5
European Growth AA	EU	EQ	LUX	02/19	USD	0.60	-7.7	56.9	-16.7
Global Contrarain AA	GL	EQ	LUX	02/19	USD	0.92	3.7	114.6	NS
Global Property AA	OT	EQ	LUX	02/19	USD	0.65	-4.3	77.3	-13.2
Global Resources AA	OT	EQ	LUX	02/19	USD	1.05	-3.4	44.3	-13.7
Healthcare AA	OT	EQ	LUX	02/19	USD	0.95	0.2	17.4	NS
India Equity AA	EA	EQ	LUX	02/19	USD	1.02	-7.2	78.9	-15.0
International Growth	GL	EQ	LUX	02/19	USD	2.95	-3.3	34.5	-13.8
International Growth AA	GL	EQ	LUX	02/19	USD	0.69	-3.3	34.1	-14.0
Japanese Growth	JP	EQ	LUX	02/19	USD	2.68	-2.7	23.7	-12.5
Japanese Growth AA	JP	EQ	LUX	02/19	USD	0.70	-2.1	24.2	-12.4
Latin America Equity AA	GL	EQ	LUX	02/19	USD	1.24	-3.9	100.0	-5.4
Manulife GF Strategic Income Fund AA	OT	OT	NA	02/19	USD	1.01	0.6	NS	NS
MGF Asia Value Dividend Equity Fund	OT	OT	Lux	02/19	USD	1.09	-4.0	NS	NS
Russia Equity AA	EE	EQ	LUX	02/19	USD	0.65	4.4	151.6	-19.5
Taiwan Equity AA	AS	EQ	LUX	02/10	USD	0.97	-10.4	74.8	0.3
Turkey Equity AA	EE	EQ	LUX	02/19	USD	0.75	-2.4	143.7	-5.0
U.S. Bond AA	US	BD	LUX	02/19	USD	1.12	1.3	17.4	7.9
U.S. Sm Cap Equity AA	US	EQ	LUX	02/19	USD	0.87	6.4	84.3	-6.5
U.S. Special Opportunities	OT	OT	LUX	02/19	USD	0.86	6.4	99.6	6.2
U.S. Tsy Inf-ProtSec AA	OT	BD	LUX	02/19	USD	1.14	0.0	7.8	2.0

■ PT CIPTADANA ASSET MANAGEMENT
Tel: +62 21 25574 883 Fax: +62 21 25574 893 Website: www.ciptadana.com

Indonesian Grth Fund	EA	EQ	CYM	02/10	USD	124.51	-2.2	125.8	-3.3

Sensible Asset Management
A Value Partners Group company

■ SENSIBLE ASSET MANAGEMENT LIMITED
www.samfund.com.hk Tel: (852) 2868 6848 Fax: (852) 2810 9948

Asia Value Formula Fd-B	AS	EQ	CYM	02/18	USD	7.79	-2.9	94.3	-4.0

SOCIETE GENERALE Asset Management

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Hotline in Hong Kong 2166 5099
A company of Amundi Group
www.sgam.com

Bonds Eur Hi Yld A	OT	OT	LUX	02/18	EUR	20.98	1.9	51.4	4.5
Bonds EURO A	OT	OT	LUX	02/18	EUR	41.27	0.5	4.2	4.6
Bonds EUROPE A	OT	OT	LUX	02/18	EUR	39.42	0.8	2.8	4.2
Bonds US OppsCoreplus A	OT	OT	LUX	02/17	USD	37.28	1.0	14.7	8.0
Bonds World A	OT	OT	LUX	02/18	USD	41.31	-1.6	10.5	4.0
Eq. AsiaPac Dual Strategies A	OT	OT	LUX	02/18	USD	9.75	-6.5	71.2	-9.8
Eq. China A	AS	EQ	LUX	02/18	USD	21.84	-9.5	58.2	-11.4
Eq. Concentrated Euroland A	OT	OT	LUX	02/17	EUR	88.05	-5.3	26.4	-15.4
Eq. ConcentratedEuropeA	EU	EQ	LUX	02/18	EUR	26.17	-3.1	38.5	-14.5
Eq. Emerging Europe A	OT	OT	LUX	02/18	EUR	24.19	2.7	112.7	-21.0
Eq. Euroland A	EU	EQ	LUX	02/17	EUR	10.31	-4.8	26.6	-15.8
Eq. Euroland Small Cap A	OT	OT	LUX	02/18	EUR	139.96	-0.8	43.6	-7.7
Eq. EurolandCyclclsA	EU	EQ	LUX	02/18	EUR	17.62	-1.0	34.9	-11.6
Eq. EurolandFinancialA	OT	EQ	LUX	02/18	EUR	10.25	-9.4	56.7	-19.0
Eq. Glbl Emg Cty A	GL	EQ	LUX	02/17	USD	8.90	-8.1	64.4	-15.4
Eq. Global A	GL	EQ	LUX	02/18	USD	27.09	-2.7	45.7	-10.8
Eq. Global Energy A	OT	EQ	LUX	02/18	USD	17.59	-3.0	34.8	-13.5
Eq. Global Resources A	OT	OT	LUX	02/18	USD	106.70	-2.3	49.7	-11.6
Eq. Gold Mines A	OT	EQ	LUX	02/18	USD	29.37	-3.0	30.5	-3.3
Eq. India A	OT	OT	LUX	02/18	USD	122.85	-6.0	81.7	-15.2
Eq. Japan CoreAlpha A	OT	OT	LUX	02/18	JPY	7451.33	2.7	42.2	-7.9
Eq. Latin America A	OT	OT	LUX	02/17	USD	109.44	-5.9	78.8	-10.9
Eq. US Lg Cap Gr A	US	EQ	LUX	02/18	USD	14.94	-2.1	41.4	-9.3
Eq. US Rel Val A	US	EQ	LUX	02/18	USD	20.51	-0.4	51.1	-12.0
Eq. US Sm Cap Val A	US	EQ	LUX	02/18	USD	16.04	0.6	43.1	-15.5
Money Market EURO A	EU	MM	LUX	02/18	EUR	27.41	0.0	0.7	2.4
Money Market USD A	US	MM	LUX	02/17	USD	15.83	0.0	0.4	1.4

The National Investor

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TNI Mena Real Estate Fund	OT	OT	BMU	02/11	USD	921.37	-4.1	6.6	-28.6
TNI MENA Special Sits Fund	OT	OT	BMU	01/31	USD	1091.50	1.1	13.6	NS
TNI UAE Blue Chip Fund	OT	OT	ARE	02/11	AED	5.06	-5.1	28.4	-34.3

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**formerly known as China ABH Shares Fund*

Intel-Chin MainInd Foc	AS	EQ	CYM	02/17	USD	28.46	-4.6	75.0	6.0
Intel-China Converg*	AS	EQ	CYM	02/17	USD	108.68	-4.7	75.0	4.0
VP Classic - A	AS	EQ	CYM	02/18	USD	177.88	-4.6	76.5	1.7
VP CLassic - B	AS	EQ	CYM	02/18	USD	82.85	-4.7	75.6	1.2
VP High Dividend Stk	AS	EQ	CYM	02/17	USD	44.99	-1.0	80.1	5.5

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■ YMR-N Series

YMR-N Growth Fund	OT	OT	IRL	02/15	JPY	8891.00	-6.0	19.9	-20.5
YMR-N Small Cap Fund	OT	OT	IRL	02/15	JPY	6576.00	-6.2	17.4	-20.4

■ Yuki 77 Series

Yuki 77 General	JP	EQ	IRL	02/19	JPY	5756.00	-6.4	13.7	-24.6
Yuki 77 Growth	JP	EQ	IRL	02/19	JPY	5286.00	-6.3	8.6	-27.9

■ Yuki Chugoku Series

Yuki Chugoku Jpn Gen	JP	EQ	IRL	02/19	JPY	6585.00	-3.5	22.7	-20.0
Yuki Chugoku JpnLowP	JP	EQ	IRL	02/19	JPY	7491.00	-0.7	11.7	-19.1

■ Yuki Hokuyo Japan Series

Yuki Hokuyo Jpn Gen	JP	EQ	IRL	02/19	JPY	4504.00	-3.6	16.5	-23.9
Yuki Hokuyo Jpn Inc	JP	EQ	IRL	02/19	JPY	5110.00	-2.6	15.2	-19.1
Yuki Hokuyo Jpn Sm Cap	JP	EQ	IRL	02/19	JPY	4758.00	-6.8	18.0	-20.4

■ Yuki Mizuho Series

Yuki Mizuho Gen Jpn III	OT	OT	IRL	02/19	JPY	4169.00	-5.7	17.1	-27.9
Yuki Mizuho Jpn Dyn Gro	OT	OT	IRL	02/19	JPY	4385.00	-6.0	16.7	-28.2
Yuki Mizuho Jpn Exc 100	OT	OT	IRL	02/19	JPY	6563.00	-5.9	26.9	-22.6
Yuki Mizuho Jpn Gen	OT	OT	IRL	02/19	JPY	8187.00	-5.0	22.4	-20.6
Yuki Mizuho Jpn Gro	OT	OT	IRL	02/19	JPY	6031.00	-5.1	15.9	-22.6
Yuki Mizuho Jpn Inc	OT	OT	IRL	02/19	JPY	7393.00	-3.2	7.1	-21.0
Yuki Mizuho Jpn Lg Cap	OT	OT	IRL	02/19	JPY	4987.00	-3.9	20.5	-21.9
Yuki Mizuho Jpn LowP	OT	OT	IRL	02/19	JPY	11281.00	-2.4	21.2	-15.9
Yuki Mizuho Jpn PGth	OT	OT	IRL	02/19	JPY	7431.00	-6.6	16.2	-25.5
Yuki Mizuho Jpn SmCp	OT	OT	IRL	02/19	JPY	6578.00	-7.8	25.7	-22.2
Yuki Mizuho Jpn Val Sel	OT	OT	IRL	02/19	JPY	5491.00	-2.8	22.2	-18.2
Yuki Mizuho Jpn YoungCo	OT	OT	IRL	02/19	JPY	2622.00	-3.8	22.2	-25.7

■ Yuki Shizuoka Japan Series

Yuki Shizuoka General Japan	JP	EQ	IRL	02/19	JPY	5177.00	-4.5	22.0	-21.6

For information about listing your funds, please contact: Carson Wong tel: +852 2831-6481; email: carson.wong@dowjones.com

Major players & benchmarks

At right, a look at the Asia Titans, the biggest and best known companies in Asia. Below, some of the Dow Jones Titans indexes of biggest and most liquid stocks in individual countries and regions

Giants around the world

In U.S.-dollar terms.

Dow Jones Country Titans

	INDEX PERFORMANCE		
	Previous session	Year-to-date	52-week
Switzerland	0.66%	1.1%	47.8%
Sweden	1.12	1.0	58.7
Canada	0.48	-0.7%	44.9
Turkey	1.74	-1.0	118.4
U.K.	0.64	-1.0	38.4
Netherlands	0.35	-1.2	52.1
South Africa	-0.67	-2.1	29.4
Japan	-1.83	-2.3	22.9
Russia	1.58	-2.7	99.4
Australia	-0.49	-4.3	34.7
Germany	0.73	-4.4	36.2
France	0.62	-4.7	39.2
Singapore	-0.49	-5.0	75.3
Italy	0.43	-5.7	43.3
South Korea	-1.94	-5.9	54.3
Brazil	0.61	-6.3	104.1
Hong Kong	-2.71	-9.1	49.8
Spain	1.15	-9.1	28.3
China 88	unch.	-10.2	32.5

Dow Jones Regional Sector Titans

Arab 50	0.01%	4.4%	31.9%
Nordic 30	0.32	4.1	52.8
Travel Leisure	-0.18	2.0	43.3
Pers H'hold Gds	-0.46	1.7	43.4
EU Enlarged†	0.09	-1.7%	82.3
Stoxx 50	0.45	-2.4	39.0
Global 50	-0.10	-3.8	38.8
Asian 50	-2.22	-4.6	47.2
Euro Stoxx 50	0.54	-5.8	38.9
Tiger 50*	-2.07	-8.2	69.7

*Asia excluding Japan †15 companies from the new EU countries; Cyprus, CzechRepublic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

Source: Dow Jones Indexes

Dow Jones Asia Titans: Friday's best and worst...

Company	Country	Industry	Market value, in billions of US$	Previous close, in local currency	STOCK PERFORMANCE Previous session	52-week	Three-year
QBE Ins Grp	Australia	Reinsurance	$21.3	23.35	1.52%	12.6%	-29.2%
Westpac Bking	Australia	Banks	66.1	25.46	0.28	55.4	-2.7
BHP Billiton	Australia	General Mining	122.7	41.00	0.17	34.4	41.7
Hon Hai Precision Ind	Taiwan	Electrical Cmpnts Equipment	35.8	134.50	unch.	138.7	-4.7
Taiwan Smcndtr Mfg	Taiwan	Semiconductors	47.2	58.40	unch.	33.7	-11.9
CNOOC	Hong Kong	Exploration Production	$67.7	11.78	-3.76%	75.0	81.5
KB Fncl Group	South Korea	Banks	16.7	50,200	-3.46	88.8	-42.3
Mitsui	Japan	Industrial Suppliers	26.7	1,352	-3.15	48.1	-39.5
Cheung Kong	Hong Kong	Real Estate Hldg Dev	27.3	91.60	-3.02	45.3	-10.6
Indl Comm Bk China	Hong Kong	Banks	58.6	5.48	-3.01	68.1	20.2

...And the rest of Asia's blue chips

Company/Country (Industry)	Market value, in billions (U.S)	Latest, in local currency	STOCK PERFORMANCE Latest	52-week	Three-year
Commonwlth Bk of Aus Australia (Banks)	71.6	52.81	-0.36%	78.6%	3.1%
Sumitomo Mitsui Finl Japan (Banks)	42.0	2,855	-0.38	-3.7	-76.2
Woodside Petroleum Australia (Exploration Production)	27.9	43.61	-0.39	30.7	14.6
Canon Japan (Electronic Office Equipment)	49.9	3,705	-0.40	61.4	-44.4
Aus NZ Bk Australia (Banks)	49.1	21.96	-0.41	76.4	-27.0
Westfield Grp Australia (Retail REITs)	23.8	11.56	-0.69	14.5	-49.7
Takeda Pharm Japan (Pharmaceuticals)	33.8	3,925	-0.88	-0.6	-52.0
Woolworths Australia (Food Retailers Wholesalers)	28.4	25.82	-0.92	-6.5	-1.5
Kansai Elec Power Japan (Conventional Electricity)	21.3	2,049	-1.01	-10.9	-41.8
Honda Motor Japan (Automobiles)	61.7	3,095	-1.12	37.9	-32.9
Sony Japan (Consumer Electronics)	33.6	3,095	-1.12	94.9	-51.3
Nippon T&T Japan (Fixed Line Telecommunications)	56.4	3,910	-1.26	-7.6	-39.1
Mitsubishi UFJ Finl Japan (Banks)	68.2	450.00	-1.32	4.9	-70.4
East Japan Railway Japan (Travel Tourism)	25.5	5,910	-1.34	8.6	-35.6
Seven I Hldgs Japan (Broadline Retailers)	19.2	1,953	-1.36	-8.5	-49.8
Nintendo Japan (Toys)	33.8	24,210	-1.43	-4.8	-28.5
Tokyo Elec Power Japan (Conventional Electricity)	35.6	2,419	-1.47	-11.4	-40.6
RioZim Ltd Australia (General Mining)	38.4	71.00	-1.53	78.9	15.9
NTT DoCoMo Japan (Mobile Telecommunications)	62.7	137,800	-1.57	-10.3	-37.1
Hutchison Whampoa Hong Kong (Diversified Industrials)	29.6	53.85	-1.64	31.8	-31.4

Company/Country (Industry)	Market value, in billions (U.S)	Latest, in local currency	STOCK PERFORMANCE Latest	52-week	Three-year
Mitsubishi Japan (Industrial Suppliers)	39.6	2,212	-1.69%	82.7%	-19.4%
Shin-Etsu Chml Japan (Specialty Chemicals)	22.3	4,825	-1.73	20.9	-36.6
Toyota Motor Japan (Automobiles)	113.3	3,300	-1.79	6.8	-59.9
POSCO South Korea (Iron Steel)	35.1	533,000	-1.84	63.8	41.9
Samsung Elec South Korea (Semiconductors)	97.2	760,000	-1.94	62.6	28.2
Japan Tobacco Japan (Tobacco)	33.7	322,000	-1.98	40.4	-41.0
JFE Hldgs Japan (Iron Steel)	18.2	3,165	-2.01	56.7	-58.7
Tokio Marine Hldgs Japan (Property Casualty Insurance)	21.0	2,444	-2.04	17.8	-47.0
Nissan Motor Japan (Automobiles)	32.6	735.00	-2.13	157.9	-46.8
Panasonic Japan (Consumer Electronics)	28.8	1,277	-2.22	19.1	-47.0
PetroChina Hong Kong (Integrated Oil Gas)	23.1	8.50	-2.41	48.1	-10.2
Nippon Steel Japan (Iron Steel)	22.1	322.00	-2.42	28.3	-60.8
KDDI Japan (Mobile Telecommunications)	23.2	481,000	-2.43	-2.4	-46.9
China Life Ins Hong Kong (Life Insurance)	32.4	33.80	-2.45	53.3	47.3
National Australia Bk Australia (Banks)	47.2	25.25	-2.70	40.2	-38.6
Sun Hung Kai Prop Hong Kong (Real Estate Holding Development)	33.0	100.10	-2.72	66.3	2.5
China Mobile (HK) Hong Kong (Mobile Telecommunications)	190.6	74.50	-2.80	9.2	-6.0
Mizuho Financial Grp Japan (Banks)	26.2	171.00	-2.84	-9.0	-80.5
China Constr Bk Hong Kong (Banks)	166.9	5.77	-2.86	53.1	21.7
Shinhan Financial Grp South Korea (Banks)	17.0	41,350	-2.93	80.6	-25.7

Sources: Dow Jones Indexes; WSJ Market Data Group

Tracking credit markets & dealmakers

— NOTICE TO READERS —
All statistics published in The Wall Street Journal Asia from markets outside the Asian-Pacific region reflect preliminary data.

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Hedge funds

Dow Jones Hedge Benchmark	TOTAL RETURN for rolling periods, net of fees* One week	One month	One quarter	Year to date	One year
Merger Arbitrage	0.28%	-1.54%	-0.6%	-1.6%	4.3%
Event Driven	0.74	-1.41	0.9	-0.5	13.2
Equity Long/Short	1.11	-1.39	2.3	0.6	4.1

*Estimates as of 02/18/10, after fees; Source: www.djhedgefundindexes.com

Credit derivatives

Spreads on credit derivatives are one way the market rates creditworthiness. Regions that are treading in rough waters can see spreads swing toward the maximum—and vice versa. Indexes below are for five-year swaps.

Markit iTraxx Indexes

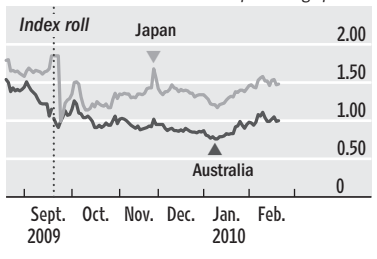
Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll Maximum	Minimum	Average
Europe: 12/1	0.88	100.56%	0.01%	1.00	0.65	0.83
Eur. High Volatility: 12/1	1.35	98.44	0.01	1.76	0.92	1.30
Europe Crossover: 12/1	4.87	100.49	0.05	6.15	3.79	4.95
Asia ex-Japan IG: 12/1	1.19	99.14	0.01	1.34	0.87	1.07
Japan: 12/1	1.48	97.79	0.01	1.68	0.99	1.35

Note: Data as of February 18

Spreads

Spreads on five-year swaps for corporate debt; based on Markit iTraxx indexes.

In percentage points



Source: Markit Group

Credit-default swaps: Asian companies

At its most basic, the pricing of credit-default swaps measures how much a buyer has to pay to purchase-and how much a seller demands to sell-protection from default on an issuer's debt. The snapshot below gives a sense which way the market was moving yesterday.

Showing the biggest improvement...

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Kajima	379	-21	–7	8
Toshiba	167	-9	–1	21
Mazda Mtr	223	-7	–13	36
Kowloon Canton Rwy	39	-6	4	...
Nishimatsu Constr	586	-4	6	43
Korea Dev Bk	120	-3	–5	12
Rep Indonesia	206	-3	–4	11
IHI	313	-3	–5	–4
Nomura Hldgs	214	-3	2	17
PCCW HKT Tel	95	-3	–2	5

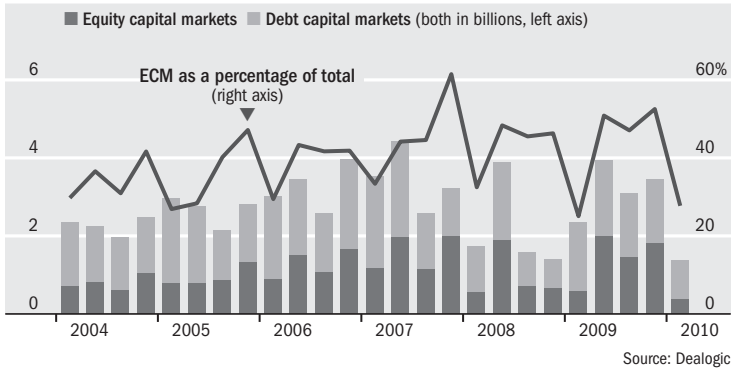
And the most deterioration

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Asahi Breweries	59	3	...	8
Nissan Mtr	143	3	–8	27
Orix	305	3	5	48
Korea Expwy	95	3	–4	16
Mitsui Chems	150	3	3	17
Malayan Bkg	111	4	–5	13
JFE Hldgs	79	4	–3	16
Sanyo Shinpan Fin	698	7	48	76
Hysan Dev	64	9	5	2
Promise	705	13	45	81

Source: Markit Group

Europe, Middle East & Africa: Bank revenues from equity capital markets

Behind every IPO, follow-on or convertible equity offering is one or more investment banks. At right, investment banks historical and year-to-date revenues from global equity-capital-market (ECM) deals



Source: Dealogic

GLOBAL MARKETS LINEUP

Commodities

Prices of futures contracts with the most open interest

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **NYBOT:** New York Board of Trade; **MDEX:** Bursa Malaysia Derivatives Berhad; **LIFFE:** London International Financial Futures Exchange; **LME:** London Mercantile Exchange; **NYMEX:** New York Mercantile Exchange; **ICE:** IntercontinentalExchange

Commodity	Exchange	Last price	ONE-DAY CHANGE Net	ONE-DAY CHANGE Percentage	Contract high	Contract low
Corn (cents/bu.)	CBOT	**371.75**	2.75	**0.75%**	714.00	325.00
Soybeans (cents/bu.)	CBOT	**954.50**	-3.00	**-0.31%**	1,087.50	819.75
Wheat (cents/bu.)	CBOT	**504.00**	4.50	**0.90**	745.00	472.00
Live cattle (cents/lb.)	CME	**93.300**	0.250	**0.27**	95.175	85.050
Cocoa ($/ton)	ICE-US	**3,109**	18	**0.58**	3,514	2,066
Coffee (cents/lb.)	ICE-US	**137.05**	0.65	**0.48**	190.40	118.30
Sugar (cents/lb.)	ICE-US	**25.96**	0.16	**0.62**	29.00	11.90
Cotton (cents/lb.)	ICE-US	**78.98**	0.85	**1.09**	94.00	51.38
Crude palm oil (ringgit/ton)	MDEX	**2,596.00**	-4	**-0.15**	3,600	1,486
Cocoa (pounds/ton)	LIFFE	**2,281**	18	**0.80**	2,356	1,475
Robusta coffee ($/ton)	LIFFE	**1,303**	-3	**-0.23**	1,605	1,300
Copper (cents/lb.)	COMEX	**337.90**	7.35	**2.22**	355.00	140.00
Gold ($/troy oz.)	COMEX	**1122.10**	3.40	**0.30**	1,229.00	785.10
Silver (cents/troy oz.)	COMEX	**1643.90**	35.40	**2.20**	1,949.50	916.00
Aluminum ($/ton)	LME	**2,104.00**	-3.00	**-0.14**	2,356.50	1,288.00
Tin ($/ton)	LME	**16,930.00**	255.00	**1.53**	18,250.00	9,945.00
Copper ($/ton)	LME	**7,222.00**	112.00	**1.58**	7,695.00	3,171.00
Lead ($/ton)	LME	**2,318.00**	52.00	**2.29**	2,615.00	995.00
Zinc ($/ton)	LME	**2,287.00**	10.50	**0.46**	2,659.00	1,086.00
Nickel ($/ton)	LME	**20,300**	unch.	**unch.**	21,150	9,475
Crude oil ($/bbl.)	NYMEX	**80.06**	0.64	**0.81**	116.70	51.00
Heating oil ($/gal.)	NYMEX	**2.0794**	0.0172	**0.83**	3.4750	1.3939
RBOB gasoline ($/gal.)	NYMEX	**2.2004**	0.0194	**0.89**	2.2972	1.4475
Natural gas ($/mmBtu)	NYMEX	**5.057**	-0.107	**-2.07**	10.800	4.595
Brent crude ($/bbl.)	ICE-EU	**78.19**	0.41	**0.53**	83.58	51.55
Gas oil ($/ton)	ICE-EU	**631.00**	6.50	**1.04**	688.00	502.25

Source: Thomson Reuters; WSJ Market Data Group

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Currencies

London close on Feb. 19

AMERICAS	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Argentina peso-a	5.2147	0.1918	3.8590	0.2591
Brazil real	2.4506	0.4081	1.8135	0.5514
Canada dollar	1.4137	0.7073	1.0462	0.9558
1-mo. forward	1.4138	0.7073	1.0463	0.9558
3-mos. forward	1.4140	0.7072	1.0464	0.9557
6-mos. forward	1.4142	0.7071	1.0465	0.9556
Chile peso	718.96	0.001391	532.05	0.001880
Colombia peso	2605.98	0.0003837	1928.50	0.0005185
Ecuador US dollar-f	1.3513	0.7400	1	1
Mexico peso-a	17.3683	0.0576	12.8530	0.0778
Peru sol	3.8519	0.2596	2.8505	0.3508
Uruguay peso-e	26.553	0.0377	19.650	0.0509
U.S. dollar	1.3513	0.7400	1	1
Venezuela bolivar	5.80	0.172314	4.29	0.232848
ASIA-PACIFIC				
Australia dollar	1.5119	0.6614	1.1189	0.8938
China yuan	9.2325	0.1083	6.8323	0.1464
Hong Kong dollar	10.4955	0.0953	7.7670	0.1287
India rupee	62.5179	0.0160	46.2650	0.0216
Indonesia rupiah	12621	0.0000792	9340	0.0001071
Japan yen	124.33	0.008043	92.01	0.010869
1-mo. forward	124.31	0.008044	91.99	0.010870
3-mos. forward	124.26	0.008047	91.96	0.010875
6-mos. forward	124.17	0.008053	91.89	0.010882
Malaysia ringgit-c	4.6089	0.2170	3.4108	0.2932
New Zealand dollar	1.9439	0.5144	1.4385	0.6952
Pakistan rupee	114.455	0.0087	84.700	0.0118
Philippines peso	62.396	0.0160	46.175	0.0217
Singapore dollar	1.9099	0.5236	1.4134	0.7075
South Korea won	1558.32	0.0006417	1153.20	0.0008672
Taiwan dollar	43.350	0.02307	32.080	0.03117
Thailand baht	44.843	0.02230	33.185	0.03013

EUROPE	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Euro zone euro	1	1	0.7400	1.3513
1-mo. forward	1.0000	1.0000	0.7401	1.3512
3-mos. forward	1.0002	0.9998	0.7401	1.3511
6-mos. forward	1.0005	0.9995	0.7404	1.3506
Czech Rep. koruna-b	25.740	0.0388	19.049	0.0525
Denmark krone	7.4430	0.1344	5.5080	0.1816
Hungary forint	271.19	0.003687	200.69	0.004983
Norway krone	8.0920	0.1236	5.9883	0.1670
Poland zloty	4.0051	0.2497	2.9639	0.3374
Russia ruble-d	40.631	0.02461	30.068	0.03326
Sweden krona	9.8571	0.1015	7.2945	0.1371
Switzerland franc	1.4644	0.6829	1.0837	0.9228
1-mo. forward	1.4641	0.6830	1.0835	0.9229
3-mos. forward	1.4634	0.6833	1.0830	0.9234
6-mos. forward	1.4623	0.6839	1.0821	0.9241
Turkey lira	2.0563	0.4863	1.5218	0.6571
U.K. pound	0.8767	1.1407	0.6488	1.5414
1-mo. forward	0.8769	1.1404	0.6489	1.5411
3-mos. forward	0.8772	1.1400	0.6492	1.5404
6-mos. forward	0.8777	1.1393	0.6495	1.5395
MIDDLE EAST/AFRICA				
Bahrain dinar	0.5094	1.9630	0.3770	2.6526
Egypt pound-a	7.4213	0.1347	5.4920	0.1821
Israel shekel	5.1122	0.1956	3.7832	0.2643
Jordan dinar	0.9564	1.0456	0.7078	1.4129
Kuwait dinar	0.3919	2.5516	0.2900	3.4480
Lebanon pound	2037.08	0.0004909	1507.50	0.0006634
Saudi Arabia riyal	5.0670	0.1974	3.7498	0.2667
South Africa rand	10.3831	0.0963	7.6838	0.1301
United Arab dirham	4.9633	0.2015	3.6730	0.2723
SDR -f	0.8863	1.1283	0.6559	1.5246

a-floating rate b-commercial rate c-government rate c-commercial rate d-Russian Central Bank rate f-Special Drawing Rights from the International Monetary Fund ; based on exchange rates for U.S., British and Japanese currencies.
Note: Based on trading among banks in amounts of $1 million and more, as quoted by Thomson Reuters.

Major stock market indexes

Stock indexes from around the world, grouped by region. Shown in local-currency terms.

Price-to-earnings ratio*	Region/Country	Index	PREVIOUS SESSION Close	Net change	Percentage change	PERFORMANCE Yr.-to-date	52-wk.
50	**ASIA-PACIFIC**	**DJ Asia-Pacific**	117.89	-2.46	**-2.04%**	-4.2%	49.0%
...	Australia	**SPX/ASX 200**	4635.06	-19.85	**-0.43**	-4.8	36.2
27	China	**CBN 600**	26845.32		**Closed**	-7.6	38.6
18	Hong Kong	**Hang Seng**	19894.02	-528.13	**-2.59**	-9.0	56.7
19	India	**Sensex**	16191.63	-136.21	**-0.83**	-7.3	83.1
...	Indonesia	**Jakarta Composite**	2554.376	-5.658	**-0.22**	0.8	97.0
...	Japan	**Nikkei Stock Average**	10123.58	-212.11	**-2.05**	-4.0	36.5
...		**Topix**	889.08	-15.65	**-1.73**	-2.0	20.2
...	Malaysia	**Kuala Lumpur Composite**	1257.67	-1.33	**-0.11**	-1.2	41.4
...	New Zealand	**NZSX-50**	3107.088	5.318	**0.17%**	-3.8	20.6
9	Pakistan	**KSE 100**	9902.62	13.32	**0.13**	5.5	65.9
14	Philippines	**Manila Composite**	2978.53	-21.41	**-0.71**	-2.4	58.3
...	Singapore	**Straits Times**	2757.14	-12.05	**-0.44**	-4.8	72.9
11	South Korea	**Kospi**	1593.90	-27.29	**-1.68**	-5.3	49.5
20	Taiwan	**Weighted**	7441.84		**Closed**		
10	Thailand	**SET**	700.44	4.78	**0.69**	-4.6	61.1
58	**EUROPE**	**DJ Stoxx 600**	250.30	1.16	**0.46**	-1.1	41.5
23		**DJ Stoxx 50**	2522.34	11.35	**0.45**	-2.2	39.0
70	**Euro Zone**	**DJ Euro Stoxx**	262.31	1.52	**0.58%**	-4.5%	39.3%
21		**DJ Euro Stoxx 50**	2793.37	15.07	**0.54**	-5.8	38.9
...	Denmark	**OMX Copenhagen**	336.42	-0.02	**-0.01%**	6.6	46.8
20	Finland	**OMX Helsinki**	6672.06	12.60	**0.19**	3.3	45.3
16	France	**CAC-40**	3769.54	21.71	**0.58**	-4.2	37.0
20	Germany	**DAX**	5722.05	41.64	**0.73**	-4.0	42.5
14	Italy	**FTSE MIB**	21772.33	86.21	**0.40**	-6.3	40.2
...	Netherlands	**AEX**	325.60	1.30	**0.40**	-2.9	42.1
...	Russia	**RTSI**	1423.13	12.28	**0.87**	-0.3	175.1
10	Spain	**IBEX 35**	10676.7	102.5	**0.97**	-10.6	40.4
14	Switzerland	**SMI**	6709.68	72.39	**1.09**	2.5	38.3
...	Turkey	**ISE National 100**	53318.97	869.17	**1.66**	0.9	126.1
13	U.K.	**FTSE 100**	5358.17	33.08	**0.62**	-1.0	37.8
19	**AMERICAS**	**DJ Americas**	295.20	0.47	**0.16**	-0.4	51.4
...	Brazil	**Bovespa**	67597.43	-238.65	**-0.35**	-1.4	74.6
...	Argentina	**Merval**	2334.99	0.55	**0.02**	0.6	122.7
20	Mexico	**IPC**	32172.11	1.32	**...**	0.2	75.6

*P/E ratios use trailing 12-months, as-reported earnings
European and Americas index data are as of 5:00 p.m. ET.

Sources: Thomson Reuters; WSJ Market Data Group

Thomson Reuters is the primary data provider for several statistical tables in The Wall Street Journal, including foreign stock quotations, futures and futures options prices, and foreign exchange tables. Reuters real-time data feeds are used to calculate various Dow Jones Indexes.

Dow Jones and Dow Jones Stoxx Indexes

Dividend yield*	Price-to-earnings ratio*	Dows Jones Index	Last	Net change	PERFORMANCE Daily	Year-to-date	52-wk.	Three-yr., annualized
2.18%	20	**DJ Global Index**	219.84	-1.09	**-0.49%**	-3.1%	51.4%	-8.7%
1.94	20	**Global DOW**	1893.58	-14.30	**-0.75**	-4.6	49.0	-5.6
2.39		**Asia/Pacific 600**	111.36	-2.72	**-2.38**	-2.9	39.4	-10.3
1.82	15	**Emerging Markets**	263.71	-2.57	**-0.96**	-5.8	89.3	0.1
2.19	50	**Asia/Pacific**	117.89	-2.46	**-2.04**	-4.2	49.0	-8.4
2.48	17	**Asia/Pacific ex-Japan**	294.91	-4.39	**-1.47**	-6.5	82.7	-2.8
2.66	22	**Southeast Asia**	150.59	-0.50	**-0.33**	-6.4	82.2	-1.1
0.88	27	**CBN China 600** -c	26845.32	0.00	**0.00**	-7.6	38.6	8.7
0.90	30	**Shanghai**	360.75	0.00	**0.00**	-6.9	39.0	8.9
0.60	45	**Shenzhen**	392.71	0.00	**0.00**	-5.7	52.7	14.9
2.42	17	**China Offshore 50**	3682.09	-105.33	**-2.78**	-9.7	55.6	3.5
7.85	9	**Australia LPT** -c, d	1117.09	-6.35	**-0.57**	-3.9	37.1	-23.9
2.10%	15	**Islamic Market**	1929.72	-7.97	**-0.41%**	-2.3%	46.2%	-3.4%
2.39	16	**Islamic Market 100**	2068.10	-9.05	**-0.44**	-2.5	34.8	-3.8
9.30		**Bahrain**	126.31	0.26	**0.21**	3.8	-5.9	-11.5
2.57	49	**Kuwait**	218.98	-0.10	**-0.05**	12.5	20.3	-13.3
2.62	18	**Sustainability**	964.63	-5.77	**-0.59**	-4.8	51.8	-9.7
2.53	58	**Stoxx 600**	252.59	-0.94	**-0.37**	-7.2	51.5	-12.3
4.09	18	**Stoxx Select Div 30**	1650.91	-7.53	**-0.45**	-8.1	48.7	-24.8
3.67	25	**Euro Stoxx Sel Div 30**	1974.75	-5.48	**-0.28**	-7.2	61.1	-20.9
1.77	25	**DJ U.S. TSM**	11499.54	29.55	**0.26**	0.0	47.4	-7.9
4.16	15	**U.S. Select Dividend** -d	660.93	4.09	**0.62**	1.6	53.7	-10.7
4.84		**U.S. REIT**	143.31	0.29	**0.20**	-1.4	63.5	-21.0
		DJ-UBS Commodity -p	134.84	0.64	**0.48**	-3.1	31.1	-7.1

*Fundamentals are based on data in U.S. dollar. Footnotes: c-in local currency. d-dividends reinvested. p-previous day. Note: All data as of 11:30 a.m. ET.

Source: Dow Jones Indexes

Cross rates

U.S.-dollar and euro foreign-exchange rates in global trading

	US$	A$	£	C$	YUAN	EURO	HK$	RUPEE	RUPIAH	YEN	NZ$	WON	RINGGIT	PH. PESO	S$	S FRANC	TW$	BAHT
U.S.		1.119	0.649	1.046	6.832	0.740	7.767	46.265	9339.68	92.005	1.439	1153.20	3.411	46.175	1.413	1.084	32.080	33.185
Australia	0.894		0.580	0.935	6.106	0.661	6.942	41.349	8347.34	82.229	1.286	1030.68	3.048	41.269	1.263	0.969	28.671	29.659
Britain	1.541	1.725		1.613	10.531	1.141	11.972	71.313	14396.19	141.816	2.217	1777.55	5.257	71.174	2.179	1.670	49.448	51.151
Canada	0.956	1.069	0.620		6.531	0.707	7.424	44.222	8927.25	87.942	1.375	1102.28	3.260	44.136	1.351	1.036	30.663	31.720
China	0.1464	0.164	0.095	0.153		0.108	1.137	6.772	1366.99	13.466	0.211	168.79	0.499	6.758	0.207	0.159	4.695	4.857
Euro	1.351	1.512	0.877	1.414	9.232		10.496	62.518	12620.72	124.326	1.944	1558.32	4.609	62.396	1.910	1.464	43.350	44.843
Hong Kong	0.129	0.144	0.084	0.135	0.880	0.095		5.957	1202.48	11.846	0.185	148.47	0.439	5.945	0.182	0.140	4.130	4.273
India	0.0216	0.0242	0.0140	0.0226	0.1477	0.0160	0.1679		201.87	1.9887	0.0311	24.93	0.0737	0.9981	0.0306	0.0234	0.6934	0.7173
Indonesia	0.0001	0.0001	0.0001	0.0001	0.0007	0.0001	0.0008	0.0050		0.0099	0.0002	0.12	0.0004	0.0049	0.0002	0.0001	0.0034	0.0036
Japan	0.011	0.012	0.007	0.011	0.074	0.008	0.084	0.503	101.51		0.016	12.53	0.037	0.502	0.015	0.012	0.349	0.361
New Zealand	0.695	0.778	0.451	0.727	4.749	0.514	5.399	32.161	6492.48	63.957		801.65	2.371	32.099	0.983	0.753	22.300	23.069
South Korea	0.0009	0.0010	0.0006	0.0009	0.0059	0.0006	0.0067	0.0401	8.10	0.0798	0.0012		0.0030	0.0400	0.0012	0.0009	0.0278	0.0288
Malaysia	0.293	0.328	0.190	0.307	2.003	0.217	2.277	13.564	2738.31	26.975	0.422	338.11		13.538	0.414	0.318	9.406	9.730
Philippines	0.022	0.024	0.014	0.023	0.148	0.016	0.168	1.002	202.27	1.993	0.031	24.97	0.074		0.031	0.023	0.695	0.719
Singapore	0.708	0.792	0.459	0.740	4.834	0.524	5.495	32.733	6607.96	65.095	1.018	815.91	2.413	32.669		0.767	22.697	23.479
Switzerland	0.923	1.032	0.599	0.965	6.305	0.683	7.167	42.692	8618.33	84.899	1.327	1064.13	3.147	42.609	1.304		29.602	30.622
Taiwan	0.031	0.035	0.020	0.033	0.213	0.023	0.242	1.442	291.14	2.868	0.045	35.95	0.106	1.439	0.044	0.034		1.034
Thailand	0.030	0.034	0.020	0.032	0.206	0.022	0.234	1.394	281.44	2.772	0.043	34.75	0.103	1.391	0.043	0.033	0.967	

Source: Thomson Reuters via WSJ Market Data Group

MSCI indexes

Developed and emerging-market regional and country indexes from MSCI Barra as of February. 19, 2010

Dividend yield	Price-to-earnings ratio	Morgan Stanley Index	Last	LOCAL-CURRENCY PERFORMANCE Daily	YTD	52-wk.
2.40%	26	**ALL COUNTRY (AC) WORLD***	291.03	-0.37%	**-2.8%**	39.9%
2.50	27	**World (Developed Markets)**	1,138.94	-0.45	**-2.5**	35.8
1.80	116	**World Small Cap**	190.35	-0.47	**0.1**	53.7
2.60	22	**Kokusai (World ex-Japan)**	1,124.77	-0.52	**-3.0**	38.7
3.00	27	**EAFE**	1,505.76	-0.19	**-4.7**	35.0
2.10	20	**Emerging Markets (EM)**	943.11	0.21	**-4.7**	78.1
2.60	22	**AC ASIA PACIFIC EX-JAPAN**	395.56	0.52	**-5.0**	73.3
2.10	22	**AC Far East ex-Japan**	424.74	0.66	**-5.6**	65.6
1.70	-36	**Japan**	566.29	-0.03	**-0.4**	15.7
2.00	19	**China**	60.41	-0.68	**-6.8**	61.4
0.90	37	**China A (China Domestic)**	3,104.25	0.00	**-8.2**	61.0
2.70	22	**Hong Kong**	9,759.82	-0.59	**-4.1**	48.1
1.00	20	**India**	668.04	-0.59	**-5.5**	84.2
1.10	16	**Korea**	460.51	-0.44	**-4.2**	43.9
2.40	19	**Malaysia**	462.63	-0.06	**-1.5**	41.3
3.10	17	**Singapore**	1,536.91	-1.00	**-5.4**	55.9
2.60	232	**Taiwan**	269.24	0.00	**-9.0**	68.7
3.00	18	**Thailand**	280.89	-0.21	**-6.9**	57.2
4.00	24	**Australia**	961.90	-0.27	**-3.9**	32.1
5.40	16	**New Zealand**	83.19	-0.08	**-4.6**	3.8
1.90	32	**US BROAD MARKET**	1,233.33	-0.65	**-0.3**	37.1
3.40	17	**EUROPE**	86.51	0.61	**-2.0**	29.3

*Twenty-three developed and 26 emerging markets

Source: MSCI Barra

MARKETS LINEUP

Moving the markets

At right, Japan's benchmark stock index and the biggest movers among the larger Asian stocks indexes and stocks Friday. Below each index are its most actively traded stocks. The charts show the percentage change in each index's or stock's value, rather than the point change, for purposes of comparison. The index level or stock price is indicated on each axis. All indexes and stocks are shown in local currency terms.

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Asian index movers...

Nikkei Stock Average
Japan 10123.58
▼ **2.05% or 212.11**

Mitsubishi Estate and its real-estate peers fell on concerns about weak domestic demand. Toyota Motor continued to decline on uncertainty over the recall fallout.

Stock	Volume in millions	Change Close	Change Net	Change %
Mizuho Financial	**97.96**	171	–5	–2.84
GS Yuasa	**57.09**	598	14	2.40
Mtshbsh Fin Grp	**54.54**	450	–6	–1.32
Toshiba	**50.40**	441	–13	–2.86
Hitachi	**41.58**	297	–8	–2.62

Hang Seng
Hong Kong 19894.02
▼ **2.59% or 528.13**

Interest-rate jitters sparked by the Federal Reserve move pushed the index below the psychologically important 20000 level, with all but two of its 42 components declining.

Stock	Volume in millions	Change Close	Change Net	Change %
Icbc	**266.26**	5.48	–0.17	–3.01
Bank Of China	**243.33**	3.71	–0.11	–2.88
CCB	**233.95**	5.77	–0.17	–2.86
PetroChina	**80.09**	8.50	–0.21	–2.41
CNOOC	**71.51**	11.78	–0.46	–3.76

Kospi
South Korea 1593.90
▼ **1.68% or 27.29**

Banks and construction stocks fell the most on interest-rate concerns. KB Financial Group shed 3.5%, while Hyundai Engineering & Construction declined 2.1%.

Stock	Volume in millions	Change Close	Change Net	Change %
Hansol Homedeco	**32.15**	2,200.00	75.00	3.53
Taechang	**18.38**	550.00	40.00	7.84
Samyang Optics	**17.54**	1,150.00	–65.00	–5.35
Hbe Energy	**14.82**	305.00	–10.00	–3.17
Hanshin Mach	**14.41**	1,930.00	250.00	14.88

Sensex
India 16191.63
▼ **0.83% or 136.21**

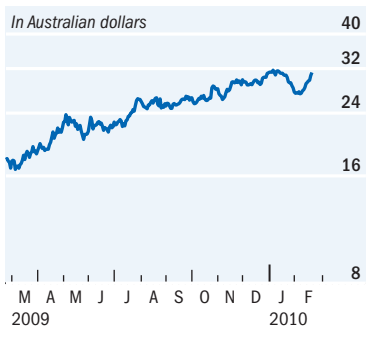
Reliance Industries, down 1.2%, dragged the market lower again, though the index has advanced 2.5% in the past two weeks. State Bank of India fell 1.8%.

Stock	Volume in millions	Change Close	Change Net	Change %
Hindalco-A	**2.86**	149.75	–2.35	–1.55
Dlf-A	**2.76**	291.30	–12.45	–4.10
Bharti Airtel-A	**1.98**	278.25	–2.85	–1.01
N T P C-A	**1.84**	201.75	–3.30	–1.61
Jaiprak Asso-A	**1.82**	129.65	–5.90	–4.35

Asian stocks in the news

Wesfarmers
Australia A$31.20
▲ **2.0% or A$0.60**

Brokers raised their price targets on the consumer-stapes company after strong first-half results.



Price-to-earnings ratio	**24**
Earnings per share, past four quarters	**1.30**
Dividend yield	**1.8**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Retail	**-1.6%**	...	43.6%
Wesfarmers	**2.0%**	7.5%	75.4%

AMP
Australia A$6.30
▲ **2.3% or A$0.14**

Comments Thursday raised speculation the company will seek to outbid NAB for AXA Asia Pacific.

Price-to-earnings ratio	**17**
Earnings per share, past four quarters	**0.37**
Dividend yield	**2.5**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Financial Services	**-1.7%**	-0.5%	73.8%
AMP	**2.3%**	2.3%	29.9%

GS Yuasa
Japan ¥598
▲ **2.4% or ¥14**

Hopes rose for an investment in the battery maker from Daiwa Securities' new investment trust.

Price-to-earnings ratio	**70**
Earnings per share, past four quarters	**8.50**
Dividend yield	**0.8**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Automobiles & Parts	**-2.1%**	-2.7%	46.2%
GS Yuasa	**2.4%**	...	59.0%

Taiheiyo Cement
Japan ¥115
▲ **3.6% or ¥4**

Published reports said major cement companies are moving to cut excess production capacity in Japan.

Price-to-earnings ratio	**none**
Earnings per share, past four quarters	**-4.70**
Dividend yield	**none**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Constructn & Matl	**-2.0%**	-0.6%	55.7%
Taiheiyo Cement	**3.6%**	6.5%	-21.8%

Misumi Grp
Japan ¥1,620
▲ **5.0% or ¥77**

On Thursday, the company raised its outlook for full-year net profit by 35%.

Price-to-earnings ratio	**41**
Earnings per share, past four quarters	**39.30**
Dividend yield	**0.6**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Indus Gds & Svcs	**-2.2%**	-1.1%	63.5%
Misumi Grp	**5.0%**	7.1%	55.6%

Henderson Land Dev
Hong Kong HK$48.60
▼ **4.2% or HK$2.15**

Property developers fell on concerns that Hong Kong interest rates may track U.S. rates higher.

Price-to-earnings ratio	**19**
Earnings per share, past four quarters	**2.58**
Dividend yield	**1.2**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Real Estate	**-2.3%**	-2.1%	61.5%
Henderson Land Dev	**-4.2%**	-4.0%	97.2%

Mitsui Fudosan
Japan ¥1,461
▼ **4.3% or ¥66**

The real-estate sector was Japan's worst performer amid worries over a major player in the market.

Price-to-earnings ratio	**26**
Earnings per share, past four quarters	**56.20**
Dividend yield	**1.5**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Real Estate	**-2.3%**	-2.1%	61.5%
Mitsui Fudosan	**-4.3%**	-1.4%	40.8%

Esprit Hldgs
Hong Kong HK$54.30
▼ **4.7% or HK$2.70**

The company's shares led the way as all but two of Hong Kong's 42 blue-chip stocks delcined.

Price-to-earnings ratio	**14**
Earnings per share, past four quarters	**3.98**
Dividend yield	**2.7**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Retail	**-1.6%**	...	43.6%
Esprit Hldgs	**-4.7%**	-5.8%	28.7%

Trend Micro
Japan ¥3,170
▼ **5.7% or ¥190**

Shares fell after the company released its fiscal-year earnings and its January-to-March forecast.

Price-to-earnings ratio	**22**
Earnings per share, past four quarters	**142.60**
Dividend yield	**3.2**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Technology	**-1.3%**	0.1%	78.9%
Trend Micro	**-5.7%**	-0.6%	43.4%

Boart Longyear
Australia A$0.32
▼ **7.2% or A$0.03**

The drilling-services firm said it will add staff and nearly triple capital expenditure this year.

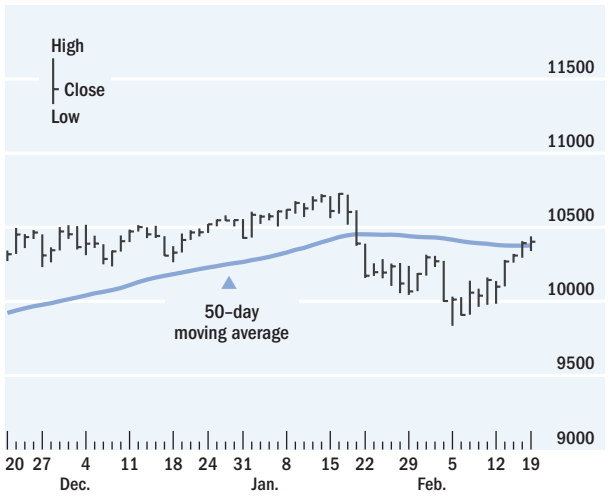
Price-to-earnings ratio	**none**
Earnings per share, past four quarters	**-0.01**
Dividend yield	**none**

	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Oil & Gas	**-1.5%**	-0.7%	53.5%
Boart Longyear	**-7.2%**	-8.6%	155.9%

SCANNING THE GLOBE

Dow Jones Industrial Average P/E: 16

LAST: **10402.35** ▲ 9.45, or 0.09%
YEAR TO DATE: ▼ **25.70, or 0.2%**
OVER 52 WEEKS ▲ **3,036.68, or 41.2%**



Nasdaq Composite Index P/E: 19*

LAST: **2243.87** ▲ 2.16, or 0.10%
YEAR TO DATE: ▼ **25.28, or 1.1%**
OVER 52 WEEKS ▲ **802.64, or 55.7%**

S&P 500 Index P/E: 26

LAST: **1109.17** ▲ 2.42, or 0.22%
YEAR TO DATE: ▼ **5.93, or 0.5%**
OVER 52 WEEKS ▲ **339.12, or 44.0%**

*Price-to-earnings ratio for the Nasdaq 100 Note: Price-to-earnings ratios are for trailing 12 months

Sources: WSJ Market Data Group; Birinyi Associates

DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	CHANGE Percentage
AT&T	T	**32.50**	$25.10	-0.14	**-0.55%**
Alcoa	AA	**27.50**	13.53	-0.08	**-0.59**
AmExpress	AXP	**8.70**	39.06	-0.09	**-0.23**
BankAm	BAC	**184.20**	15.88	0.00	**0.00**
Boeing	BA	**7.10**	63.59	0.70	**1.11**
Caterpillar	CAT	**7.70**	58.25	0.44	**0.76**
Chevron	CVX	**12.40**	74.05	0.43	**0.58**
CiscoSys	CSCO	**36.00**	24.36	0.08	**0.33**
CocaCola	KO	**8.90**	55.72	-0.19	**-0.34**
Disney	DIS	**12.00**	31.23	0.21	**0.68**
DuPont	DD	**6.60**	34.03	0.41	**1.22**
ExxonMobil	XOM	**22.80**	65.87	-0.09	**-0.14**
GenElec	GE	**61.70**	16.17	-0.07	**-0.43**
HewlettPk	HPQ	**15.80**	50.79	-0.02	**-0.04**
HomeDpt	HD	**17.90**	30.15	-0.15	**-0.50**
Intel	INTC	**38.50**	20.82	-0.02	**-0.10**
IBM	IBM	**5.80**	127.19	-0.62	**-0.49**
JPMorgChas	JPM	**37.70**	40.03	-0.38	**-0.94**
JohnsJohns	JNJ	**13.30**	63.81	-0.23	**-0.36**
KftFoods	KFT	**14.20**	28.92	0.11	**0.38**
McDonalds	MCD	**5.30**	64.74	0.26	**0.40**
Merck	MRK	**11.20**	37.49	0.20	**0.54**
Microsoft	MSFT	**40.20**	28.77	-0.20	**-0.69**
Pfizer	PFE	**48.00**	17.99	0.26	**1.47**
ProctGamb	PG	**9.40**	63.45	0.06	**0.09**
3M	MMM	**3.00**	81.52	0.41	**0.51**
TravelersCos	TRV	**5.10**	52.88	0.14	**0.27**
UnitedTech	UTX	**5.00**	68.52	0.41	**0.60**
Verizon	VZ	**17.40**	29.02	-0.13	**-0.45**
WalMart	WMT	**14.40**	53.49	0.02	**0.04**

U.S. stocks: most active...

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	CHANGE Percentage
Citigroup	C	**277.8**	$3.42	–$0.01	**–0.29%**
BankAm	BAC	**216.0**	15.88	0.00	**0.00**
SPDR S&P 500	SPY	**205.4**	111.14	0.23	**0.21**
SprintNextel	S	**136.5**	3.49	0.18	**5.44**
SiriusXM	SIRI	**123.9**	1.08	–0.05	**–4.42**
Dell	DELL	**99.3**	13.47	–0.96	**–6.65**
PwrShrs QQQ	QQQQ	**80.4**	44.83	–0.02	**–0.04**
iShrMSCIEmrgMkt	EEM	**77.2**	39.38	–0.34	**–0.86**
GenElec	GE	**65.2**	16.17	–0.07	**–0.43**
SPDR FnclSelSct	XLF	**59.0**	14.46	0.08	**0.56**
DrxFinancBear 3x	FAZ	**57.6**	18.38	–0.26	**–1.39**
iShrRu2000	IWM	**56.8**	63.06	0.08	**0.13**
E Trade	ETFC	**50.7**	1.56	0.01	**0.65**
Pfizer	PFE	**50.6**	17.99	0.26	**1.47**
FordMotor	F	**46.9**	11.29	–0.09	**–0.79**

Biggest gainers...

ManSangIntl	MHJ	**391.3**	$2.75	$0.75	**37.50%**
Xenoport	XNPT	**27,874.1**	8.38	1.71	**25.64**
ColonlBncsh	COBK	**6.0**	8.00	1.51	**23.27**
NewpkRes	NR	**2,316.4**	5.01	0.73	**17.06**
GFI Grp	GFIG	**2,237.2**	5.23	0.69	**15.20**

...Biggest losers

ARYXTherapeutc	ARYX	**4,908.9**	$1.47	-$1.37	**-48.24%**
Unilife	UNIS	**136.9**	9.80	-2.35	**-19.34**
EngySolutns	ES	**20,465.0**	6.35	-1.44	**-18.49**
Knot	KNOT	**1,502.9**	7.90	-1.67	**-17.45**
MeritMed	MMSI	**2,465.3**	14.41	-3.03	**-17.37**

ADRs of Asian companies*

52-WEEK High	52-WEEK Low	Stock	Symbol	Volume, in OOOs	Latest	CHANGE Points	CHANGE Percentage
$11.69	$6.88	**Taiwan Semi**	TSM	**7,852.3**	$10.02	-0.04	**-0.40%**
82.74	33.09	**BHP Billiton**	BHP	**5,187.7**	74.94	-0.15	**-0.20**
4.24	1.65	**Utd Microelectronics**	UMC	**4,960.2**	3.67	-0.09	**-2.39**
15.95	8.65	**China Unicom**	CHU	**4,214.9**	11.04	-0.29	**-2.56**
13.30	6.35	**AU Optrncs**	AUO	**3,035.3**	11.50	-0.01	**-0.09**
6.84	3.71	**Mitsu UFJ Fnl**	MTU	**2,339.1**	4.97	-0.11	**-2.17**
59.13	22.61	**Infosys Tech**	INFY	**1,530.7**	55.99	0.16	**0.29**
91.97	56.79	**Toyota Motor**	TM	**1,471.0**	73.35	-0.09	**-0.12**
59.22	40.20	**China Mobile**	CHL	**1,377.1**	48.79	-0.86	**-1.73**
8.19	4.18	**Siliconware Prec Ind**	SPIL	**1,266.3**	6.50	-0.04	**-0.61**
34.27	10.70	**Aluminum Cp of China**	ACH	**1,004.2**	23.53	-0.58	**-2.41**
21.78	11.30	**KT Corp**	KT	**938.4**	20.04	-0.45	**-2.20**
18.20	6.85	**Korea Elec Pwr**	KEP	**931.0**	16.64	-0.47	**-2.75**
18.64	12.59	**SK Telecom**	SKM	**905.1**	17.14	-0.14	**-0.81**
35.59	15.64	**Sony**	SNE	**802.6**	34.43	-0.28	**-0.81**
9.50	3.96	**Nomura Hldgs**	NMR	**795.9**	7.10	-0.17	**-2.34**
5.23	1.57	**Adv Semi Engrg**	ASX	**630.0**	4.36	0.01	**0.23**
81.00	38.70	**China Life Ins**	LFC	**598.1**	66.42	-0.81	**-1.20**
16.70	13.11	**NTT DoCoMo**	DCM	**553.0**	15.18	-0.21	**-1.36**
37.23	20.72	**Honda Motor**	HMC	**551.8**	34.35	-0.27	**-0.78**
24.09	17.71	**NTT**	NTT	**537.7**	21.52	-0.32	**-1.47**
150.50	47.09	**POSCO**	PKX	**469.3**	117.80	-2.24	**-1.87**
21.22	16.33	**ChunghwaTel**	CHT	**414.2**	18.76	0.27	**1.46**
135.92	63.94	**PetroChina**	PTR	**408.3**	111.35	-1.87	**-1.65**
17.19	10.60	**Matsushita Elec**	PC	**345.6**	14.15	-0.26	**-1.80**
9.82	5.43	**Telecom Corp of NZ**	NZT	**343.6**	8.30	-0.02	**-0.24**
25.65	5.11	**Yanzhou Coal Mining**	YZC	**311.8**	20.71	-0.40	**-1.89**
171.59	75.59	**CNOOC**	CEO	**261.9**	155.00	-3.82	**-2.41**
94.00	46.45	**China Petro & Chem**	SNP	**236.4**	75.97	-0.63	**-0.82**
56.41	31.92	**ChinaTele**	CHA	**225.7**	42.16	-1.20	**-2.77**
21.98	12.77	**Konami ADS**	KNM	**7.1**	18.08	0.17	**0.94**

*Most active American depositary receipts tracked by Dow Jones

Source: WSJ Market Data Group

Global government bonds

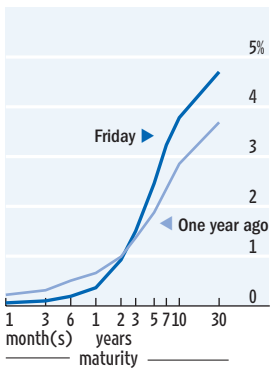
Latest, month-ago and year-ago yields and spreads over or under U.S. Treasurys on benchmark two-year and 10-year government bonds around the world. Data as of 11 a.m. ET

Coupon	Country/ Maturity, in years	Yield	SPREAD OVER TREASURYS, in basis points Latest	Previous	Month ago	Year ago	YIELD Previous	Month ago	Year ago
5.750%	**Australia** 2	**4.660%**	**373.6**	378.5	353.3	**172.7**	**4.640%**	4.429%	**2.711%**
4.500	10	**5.625**	**183.9**	185.1	184.6	**136.4**	**5.610**	5.546	**4.223**
5.000	**Austria** 2	**1.440**	**51.6**	55.0	75.6	**45.8**	**1.405**	1.652	**1.442**
3.900	10	**3.710**	**-7.6**	-6.8	4.3	**149.8**	**3.691**	3.743	**4.357**
2.000	**Belgium** 2	**1.281**	**35.7**	41.8	56.8	**44.7**	**1.273**	1.464	**1.431**
3.750	10	**3.785**	**-0.1**	1.6	16.5	**139.2**	**3.775**	3.865	**4.251**
1.500	**Canada** 2	**1.396**	**47.2**	50.4	36.0	**27.0**	**1.359**	1.256	**1.254**
3.750	10	**3.505**	**-28.1**	-25.7	-22.3	**4.3**	**3.502**	3.477	**2.902**
4.000	**Denmark** 2	**1.832**	**90.8**	95.0	103.4	**140.4**	**1.805**	1.930	**2.388**
4.000	10	**3.591**	**-19.5**	-19.5	-12.9	**66.3**	**3.564**	3.571	**3.522**
3.750	**France** 2	**1.075**	**15.1**	19.1	20.8	**52.5**	**1.046**	1.104	**1.509**
3.500	10	**3.584**	**-20.2**	-23.1	-17.4	**73.9**	**3.528**	3.526	**3.598**
1.250	**Germany** 2	**1.011**	**8.7**	12.9	27.8	**36.6**	**0.984**	1.174	**1.350**
3.250	10	**3.281**	**-50.5**	-51.9	-42.1	**20.8**	**3.240**	3.279	**3.067**
0.640	**Hong Kong** 2	**0.818**	**-10.6**	-10.3	-36.1	**-30.2**	**0.752**	0.535	**0.682**
2.160	10	**3.152**	**-63.4**	-66.4	-82.7	**-111.8**	**3.095**	2.873	**1.741**
5.000	**Italy** 2	**1.524**	**60.0**	65.3	53.6	**119.2**	**1.508**	1.432	**2.176**
4.250	10	**4.083**	**29.7**	30.2	35.9	**161.7**	**4.061**	4.059	**4.476**
0.200	**Japan** 2	**0.169**	**-75.5**	-69.5	-73.1	**-58.8**	**0.160**	0.165	**0.396**
1.300	10	**1.340**	**-244.6**	-243.6	-236.6	**-159.9**	**1.323**	1.334	**1.260**
2.500	**Netherlands** 2	**1.047**	**12.3**	17.5	-16.2	**74.2**	**1.030**	0.734	**1.726**
3.500	10	**3.549**	**-23.7**	-23.2	-22.6	**105.2**	**3.527**	3.474	**3.911**
3.200	**Portugal** 2	**1.405**	**48.1**	53.6	40.8	**87.6**	**1.391**	1.304	**1.860**
4.750	10	**4.383**	**59.7**	66.3	50.4	**168.3**	**4.422**	4.204	**4.542**
5.350	**Spain** 2	**1.374**	**45.0**	59.2	57.0	**117.5**	**1.447**	1.466	**2.159**
4.000	10	**4.043**	**25.7**	26.6	31.6	**143.0**	**4.025**	4.016	**4.289**
2.750	**Switzerland** 2	**0.381**	**-54.3**	-47.1	-21.0	**-66.4**	**0.384**	0.686	**0.320**
2.250	10	**1.991**	**-179.5**	-180.5	-163.7	**-75.6**	**1.954**	2.063	**2.103**
3.250	**U.K.** 2	**1.161**	**23.7**	27.2	41.8	**50.5**	**1.127**	1.314	**1.489**
3.750	10	**4.272**	**48.6**	43.4	32.4	**65.1**	**4.193**	4.024	**3.510**
0.875	**U.S.** 2	**0.924**	**...**	...	...	**...**	**0.855**	0.896	**0.984**
3.625	10	**3.786**	**...**	...	...	**...**	**3.759**	3.700	**2.859**

Source: Thomson Reuters

U.S. Treasury yield curve

The curve shows the yield to maturity of current bills, notes and bonds; all data as of 3 p.m. ET.



Ryan Index	Yield to maturity	Modified duration	TOTAL RETURN Month to-date	Quarter to-date	Year to-date	12-month
30-year Treasury	**4.701%**	16.04	–2.85%	–0.49%	–0.49%	–11.75%
10-year Treasury	**3.782**	8.30	–1.16	0.99	0.99	–4.06
7 Year Treasury	**3.234**	6.19	–0.74	1.56	1.56	...
Five-year Treasury	**2.462**	4.65	–0.38	1.26	1.26	1.68
Ryan Index	**2.768**	6.67	–0.90	0.84	0.84	–1.21
3 Year Treasury	**1.504**	2.92	–0.15	0.99	0.99	2.81
Two-year Treasury	**0.924**	1.93	–0.13	0.65	0.65	2.18
1 Year Treasury	**0.366**	0.97	–0.03	0.17	0.17	1.28
Six-month Treasury	**0.193**	0.50	...	0.03	0.03	0.66
Ryan Cash Index-a	**0.180**	0.45	–0.01	0.06	0.06	0.61
Three-month bill	**0.101**	0.25	0.01	0.02	0.02	0.36
One-month bill	**0.061**	0.07	...	...	...	0.13

a-Performance of a cash investment

Source: Ryan ALM

Key money rates

	Latest	52 wks ago
Prime rates		
U.S.	**3.25%**	3.25%
Canada	**2.25**	3.00
Japan	**1.475**	1.475
Britain	**0.50**	1.00
ECB	**1.00**	2.00
Switzerland	**0.52**	0.52
Australia	**3.75**	3.25
Hong Kong	**5.25**	n.a.
Libor		
One month	**0.22875%**	0.47250%
Three month	**0.25194**	1.24875
Six month	**0.39531**	1.76188
One year	**0.87750**	2.07500

	Latest	52 wks ago
Euro Libor		
One month	**0.38563%**	1.56938%
Three month	**0.60625**	1.87750
Six month	**0.91688**	1.97688
One year	**1.21188**	2.07750
Hibor		
One month	**0.06929**	0.17786%
Three month	**0.13000**	0.77786
Six month	**0.25000**	1.12000
One year	**0.56857**	1.56929
Asian dollars		
One month	**0.2396%**	0.46%
Three month	**0.2566**	1.2540
Six month	**0.3950**	1.7440
One year	**0.8620**	2.0700

	Offer	Bid
Eurodollars		
One month	**0.3000%**	0.2000%
Three month	**0.3300**	0.2300
Six month	**0.5500**	0.3500
One year	**0.8500**	0.5000

	Latest	52 wks ago
U.S. discount	**0.75%**	0.50%
Fed-funds target	**0.25**	0.25
Call money	**2.00**	2.00
Overnight repurchase rates		
U.S.	**0.20%**	0.28%
U.K. (BBA)	**0.520**	0.840
Euro zone	**0.30**	1.26

Sources: WSJ Market Data Group; Reuters

HEARD ON THE STREET

Email: heard@wsj.com FINANCIAL ANALYSIS & COMMENTARY WSJ.com/Heard

Unilever has a slippery grip on India

Perched atop of one of the world's fastest-growing consumer-goods markets, Hindustan Unilever is no stranger to competition. This makes the company's recent flat-footedness all the more remarkable.

New competitors, with low-cost structures that allow for aggressive pricing, and old rivals have chipped away at HUL's leading share of the consumer-staples market, primarily soaps and detergents. Cheaper goods made by competitors sold well during the recent economic slump.

HUL's response, cutting prices and spending heavily on advertising—arguably long after it should have—is eating into its profit. In the quarter ended in December, revenue from soaps and detergents dropped more than 2% even as sales volume increased. That segment accounts for nearly half of sales.

The cuts continue. A recent drop in the retail price of Rin detergent—a 2.2-pound bag was reduced to 50 rupees from 70 rupees ($1.08 from $1.51)), for example—could shave as much as 0.7 percentage point from the company's operating margin, Morgan Stanley says. Rin accounts for about 2% of total sales.

The worry among investors is that HUL will take this too far, sacrificing too much profit in a price war aimed at clawing back market share from the likes of **Godrej Consumer Products** and **Procter & Gamble**.

Another concern? This could happen just as input costs begin to attack margins from a different angle. As it is, earnings have fallen short of expectations for three straight quarters. Rising food prices, meanwhile, mean consumers have less room in their budget for other goods. In the first week of February, food prices rose 18% from a year earlier.

Put together, this has some analysts expecting margins to deteriorate substantially. Citi Investment Research, for one, expects earnings in the year ending March 2011 to be 15% lower than earlier forecasts. Worse, Citi notes, is that reversing the price cuts later will be difficult, meaning the lower margins could last.

Certainly, the prospect for growth in India's consumer-goods market is stellar, thanks to rising wealth and a growing population.

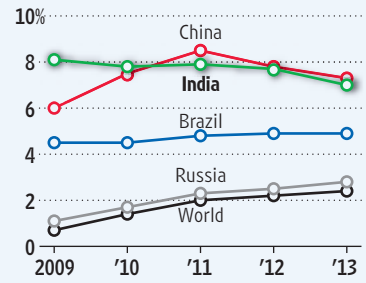
The cosmetics-and-toiletries market alone is likely to expand by 7% to 8% over the next three years to reach $7.5 billion by 2013, Euromonitor says.

This, of course, is what has HUL fighting for its market share. For now, that is a battle it is losing.

—Mohammed Hadi and Harsh Joshi

Gripping prospects

Forecast of cosmetics and toiletries market growth, change from previous year



Sources: Euromonitor; Bloomberg News (photo)

Overheard

What a difference an ocean makes.

In the U.S., **Toyota Motor** has long been running full-page newspaper advertisements to apologize for its large-scale recalls.

Back home, the world's No. 1 auto maker initially stuck with its popular television ads, featuring a child dressed as a dealership manager. Decked out in his red jacket, black regimental tie and shorts, he is accompanied by a song with the line "I like cars, but I hate green peas."

Until now.

Any lingering attempt by Toyota to bury its head in the sand back home disappeared with the start of apology ads in newspapers on Wednesday and on TV on Thursday.

Meanwhile, the Japanese company's president, **Akio Toyoda**, has now decided not to skip the coming week's congressional hearings in Washington after all.

It won't just be Detroit enjoying Toyota's discomfort when he testifies. There is another place that has a reason to celebrate the emergence of a new villain for Congress: Wall Street.

—overheard@wsj.com

To be sure, the Fed's discount-rate increase should be reassuring

The Fed raises rates, and markets yawn.

There was nothing in the Federal Reserve's decision to raise the discount lending rate that should alarm investors.

Banks flocked to the discount window for emergency loans during the crisis, but now it is barely being used.

Perhaps investors should actually be celebrating the move.

The gap between the discount rate and the federal-funds rate, traditionally a full percentage point, was cut to 0.25 percentage point during the crisis as reeling banks required cheap funding.

The latest move, which raises the discount rate by a quarter percentage point to 0.75%, puts it a half-point above the fed-funds lending rate rather than restoring the traditional spread.

In taking such a small step, the Fed seems to be underscoring the fact that any real monetary tightening, when it finally comes, also will be gradual.

That tallies with the central bank's behavior from 2004 to 2006, when it went out of its way to telegraph its steady quarter-percentage-point increases in the fed-funds rate, careful not to surprise any investors.

That arguably helped cause complacency and fueled excessive risk-taking during the credit bubble. But with the U.S. economy even more fragile now and unemployment around 10%, it is hard to see the Fed changing its tune.

As if to reinforce that, in January core U.S. consumer prices fell on a monthly basis for the first time since 1982.

In particular, shelter costs, the largest component of the core index, fell 0.5% last month and are likely to keep falling as rents and lodging costs remain under pressure nationwide.

Although headline inflation rose on higher energy costs last month, Fed policy makers are more focused on the core measures with volatile food and energy costs stripped out.

The Fed is slowly removing the huge backstops it installed during the crisis.

A more important milestone will be the end of its $1.2 trillion purchase program for mortgage securities.

But investors can sleep easy knowing that they aren't about to get surprised when it comes to monetary policy.

—Kelly Evans

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